



INTERNATIONAL
TRADE
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2015 Top Markets Report **Media and Entertainment**

A Market Assessment Tool for U.S. Exporters

July 2015



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Table of Contents

Executive Summary and Findings	3
International Trends	4
Global M&E Markets	4
Top Markets	5
Digital Media	6
Global Digital Marketing	7
Global Film & Digital TV	7
Global Music	7
Global Games	7
The Nature of U.S. M&E Licensing (i.e. Exporting Digital Content)	8
Challenges Facing U.S. M&E Exports/Licensing	9
Focus on Small and Medium Size Businesses (SMEs)	9
Top Markets Methodology	10
Determining 25 Top Markets	10
Focus on Digital Growth	10
Determining Six Top Markets	11
Highlights from the Six Top Markets	12
Filmed Entertainment	13
Music	13
Video Games	13
Observations on Intellectual Property & Copyright Industries	13
 Country Case Studies	
Brazil	17
Canada	21
China	23
India	27
Mexico	31
United Kingdom	35
 Sector Snapshots	
Filmed Entertainment	41
Music	43
 Appendices	
Appendix 1: Industry Trade Associations, Industry Resources, and Sector Definitions	45
Appendix 2: Top Markets Media and Entertainment Exports 2006-2013	49
Appendix 3: About the Office of Digital Services Industries & Global Publishing, Media & Entertainment Team*	51
Appendix 4: Citations	53

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Executive Summary and Findings

This first-of-its-kind *Media and Entertainment Top Markets Report* projects export opportunities to six countries through 2018; Brazil, Canada, China, India, Mexico, and the United Kingdom (in alphabetic order). An additional 19 markets were evaluated in order to develop this report. The report is designed to highlight opportunities for U.S. exporters and note important trends in licensing in the Media & Entertainment sector. The report also identifies trends in the rapidly evolving digital media and entertainment industry in the United States. It also analyzes the continued growth of the industry in select global markets, the drivers of future export competitiveness, and the impact of intellectual property policies and piracy on growth. The report focuses on three sub-sectors in the field of media and entertainment: filmed entertainment, music, and games, with an emphasis on digital media and licensing, and to a lesser degree the physical marketplace and product exports.

The U.S. media and entertainment (M&E) industry is the world's largest, expected to be valued at \$723 billion by 2018 – up from \$598 billion in 2014. As a marketplace, the United States is larger than Asia, Europe, Latin America, or the Middle East-North Africa for media and entertainment¹. The U.S. M&E industry is concentrated on the two coasts: in the greater Los Angeles community, and in New York City, with regional hubs for each sub-sector.

The film industry boasts a trade surplus, and the U.S. filmed entertainment hubs are in Hollywood and Los Angeles, California and New York City, New York, with a cluster of smaller hubs across several states that specialize in production facilities, filming incentives (for both domestic and foreign firms), and hubs for sub-sectors that produce film, TV, or digital streaming content. U.S. box office revenues declined during 2010-2011, but have seen a slow uptick in the following years.

During the years 2014-2017, box office revenues are projected to grow only 3.3 percent on average each year and growth is expected to decline in 2018 with only a 2 percent increase. This shift has to do with the change from physical to digital, competition from multiple viewing devices and the convenience of

watching movies anywhere, available to consumers 24/7, as well as increases in ticket prices, fewer films being released, and a reliance on the development of movie franchises around blockbusters rather than new movies. Financing is a key challenge to making a movie and typically has to be secured prior to preproduction with guarantees for reasonable returns. Funding has become increasingly difficult to secure and there is high risk associated with film production and distribution.

Despite slower growth at the U.S. box office (which still garners the highest revenues worldwide), U.S. movie studios are doing very well and the major studios as well as larger independent studios are earning billions of dollars in global box offices, underscoring excellent opportunities for global export and licensing. This includes independents although they do not have the same resources as multinational media firms or the six Motion Picture Association of America (MPAA) member studios.

In certain circumstances, however, the independents have a competitive advantage in being smaller and therefore more nimble, with the ability to react swiftly to market conditions, and many smaller film producers and studios offer specialty or niche skills, including in new formats such as animation. In addition, the major

Figure 1: Projected 25 Top Markets for Media and Entertainment Exports 2015-2018*

1. United Kingdom	6. Mexico	11. Colombia	16. South Africa	21. Netherlands
2. China	7. France	12. Italy	17. Sweden	22. Israel
3. Canada	8. Germany	13. Nigeria	18. Switzerland	23. Norway
4. Brazil	9. Russia	14. Spain	19. Japan	24. South Korea
5. India	10. Australia	15. Turkey	20. Argentina	25. Singapore

*U.S. Department of Commerce, International Trade Administration

studios often outsource or hire smaller, independent companies for special projects for these reasons. Indies often collaborate with majors and distribution is frequently done through large corporations.

Major music hubs are concentrated in Los Angeles, New York City, Nashville, and Miami. While NYC and LA represent the industry broadly, Nashville's music industry is centered on the country genre, while Miami's industry is centered on Latin, Electronic Dance Music, and Hip-Hop. The U.S. music industry declined by 7 percent from 2009-2010, and experienced a small uptick in 2011, only to decline again from 2011 to 2012. In 2014, the industry began to grow again, but growth is tenuous in the U.S. marketplace.

This is due to the shift from a physical record and CD marketplace to digital distribution, as well as the early market dominance of iTunes, and later YouTube, both of whom have launched many artists, although YouTube does not necessarily yield high returns on play; the monetization model has to be managed in order to generate a substantial income. There is currently a major debate in the industry about how the tech versus creative and music sectors are engaging and supporting growth in the music industry, although this report does not address this matter. Add illegal file sharing to the challenges in the digital marketplace, and small businesses, artists and labels are left with lower earnings. Music publishers however, are in some instances less affected by piracy, when they represent catalogues of music or licensing to major distributors.

Monetization in the digital era continues to be very challenging, even for the best-known artists, and it's all about scale. Touring and synch licensing (i.e. licensing music to film, advertising, airline entertainment services and more), along with diversification and added merchandise ("merch") provides a basket of opportunities for the industry. Many artists are still discovered via terrestrial radio play, while yet many others are debating how lucrative it is to be represented on streaming services or social networks and other online platforms. Music labels are increasingly challenged to create value in a marketplace plagued by piracy, and music publishers are increasingly challenged to collect royalties and create opportunities for songwriters or copyright owners in their portfolio.

The U.S. games sector is witnessing a high-growth period, and constitutes big industry in the North-West corridor of the United States, with California and Washington leading the way, followed by Texas and

New York, with major game developer hubs in Massachusetts, Illinois, Florida, Oregon, Colorado and Pennsylvania². The international market place is ablaze with opportunities to sell digital games across multiple platforms, including digital console, digital PC, mobile and online games, whereas physical PC games are in decline worldwide (but still earning good money even as demand shrinks from the hey-days of physical gaming). Some markets are seeing massive increases in digital console games, and the most popular ones in the United States are PlayStation Now, OnLive, and Nvidia Grid, although some reports indicate consumers are not ready for the expensive digital prices and still prefer physical copies which can be resold. As with the publishing industry, some consumers still prefer to hold a physical copy in their hands, although most industry experts agree that the convenience of the digital download is poised to overtake physical in the very near future.

Consumers, especially millennials, or 'digital natives' (those aged 14 to 30), are strongly influencing M&E industry trends worldwide. According to Deloitte Consulting's U.S. Media & Entertainment Leader "more than 90 percent of millennials are typically engaged in four different activities when in front of the television."³ These consumers expect to access video content 24/7 and are less dependent on TV subscriptions, and when watching a TV show, are typically also simultaneously on social media, sending text messages, listening to music or playing video games. This is affecting the attention span of consumers, and spurring desire for individual channels online, and the desire for tablets, smart phones and technology with easy and swift interfaces.

International Trends

Global M&E Markets

Demonstrating major contributions of uniquely American culture, the United States boasts the largest global share of M&E earnings for film, music and games (as well as publishing). By 2016, China will become the second largest market, followed by Japan, Germany, and the United Kingdom.

China

America's entertainment revenues are 3.3 times larger than China's and with a fraction of the population. China's M&E growth is principally led by advances in Internet advertisements and Internet access. The Chinese industry is strongly trending towards digital, and 65 percent of the growth in global entertainment

Figure 2: Top Ten Entertainment Trends for the 21st Century*

1. New digital technologies will reshape the economics, production, distribution, and marketing of the entertainment industry.
2. Traditional media enterprises must learn to adapt new Internet and computer technologies to maintain competitiveness.
3. The convergence of the Net with TVs, telephones, kiosks, autos, and wireless devices will create many new media channels.
4. On-demand interactive entertainment content that is personalized for our preferences will be a standard feature.
5. Advanced virtual reality bundled with digital agents and holographic entertainment worlds will transform our experience of entertainment.
6. Movie theaters will receive digital broadcasts and satellite downloads of movies, video conferencing, and other interactive programming.
7. Faster, smarter and more powerful multimedia communications devices will enhance our capacity for producing and distributing entertainment.
8. Digital TV will provide new programs where we will experience real-time participation with the media content, personalities, and shows.
9. Edutainment, the merger of entertainment and education, will offer a new genre of programming that will be greatly in demand.
10. Nontraditional entertainment producers, empowered by Power Tools, will change the industry, offering new products, channels, and innovations.

*Institute of Global Futures

and media revenues, or roughly two of every three extra dollars, will come from digital consumer advertising, to the tune of \$157B of total M&E revenues by 2018. These figures include revenues from a broad set of physical and digital sales across media and entertainment sub-sectors. By sheer volume, China stands to offer a promising consumer market for foreign investors. However, regulations hinder free trade and the market place is still adjusting to pressure from trading partners to open up more.

Top Markets

United Kingdom

The United Kingdom landed on the top export spot in this report as it is one of the largest and more robust M&E marketplaces with steady, reliable growth, relatively fewer trade barriers, and as an English speaking country, easy for American exporters to navigate.

China

China came in second and may have come in first due to the sheer size of the market and market potential, were it not for the fact there are serious market access barriers due to censorship rules on cultural content

sectors, including Internet, TV, film, music, radio, text messaging, games, newspapers, books, and print media, significant import restrictions, joint projects that have foreign direct investment (FDI) caps, and co-production requirements for Sino-foreign partnership which renders the final product or service [i.e. film] more than 50 percent Chinese.

Canada

Canada ranked as the third top market given the size of the market, the long standing and significant trade relationship and, the close proximity to the United States, as well as a well-developed professional sector that makes trading easier and more efficient for U.S. exporters, although there are also trade barriers for American businesses in Canada.

Brazil

Ranked number four, Brazil is one of the most desirable markets presently for U.S. M&E firms. This is also a large and growing marketplace, with remarkably difficult business practices. It was chosen despite numerous trade barriers and very high taxation on foreign M&E sectors, because Americans wish to trade in this market and U.S. content and industry know-how is in very high demand.

India

In the fifth slot, India offers a growing middle class of high-tech savvy consumers and a new president who has promised to grow innovation sectors. This is also a very challenging marketplace, with trade barriers and high piracy threats, and uncertain implementation of laws that govern the M&E sectors.

Mexico

The final top market is Mexico, which has a booming M&E sector and in addition to being America's immediate neighbor, is the second largest media market in Latin America. As a developing economy, there are many challenges for U.S. businesses, but for early adopters and Spanish language content, there is a lot of opportunity, especially on TV and streaming sites.

The strong U.S. export base in the M&E sector is buoyed by the presence of a growing, vibrant, and platform-diverse international market in which to sell. The global M&E industry is expected to reach \$2.3 trillion by 2018. Global industry growth is expected from emerging markets in Latin America, Asia, the Middle East, and Russia. The six top markets were identified for current M&E export growth opportunities although there are many opportunities in other markets. Utilizing a methodology that relied on analysis of revenue growth across multiple M&E sectors, trade policy and piracy, these markets came out on top.

The International Trade Administration works to assist the creative content sector with specific export and licensing goals, and can tailor export projects according to expansion and global plans of businesses in foreign markets. The agency also advocates for U.S. business in global trade negotiations, and for M&E sectors, to ensure robust intellectual property laws and addresses regulatory matters of the utmost importance to U.S. exporters and licensors. While regulations vary widely and sometimes present major trade barriers, distribution is easier than ever and American exporters are well advised to position themselves in these top markets for partnerships, to achieve greater exposure and access.

Consumers are demanding an experience and wish to interact and connect with content and creators. Services are always on, which requires technical agility from companies in this field. Experts point to similar trends across the globe, captured nicely in the 'top ten' by the Institute of Global Futures in Figure 2.

Digital Media

One clear trend dominates every media marketplace in 2015; the consumer as a key player and influencer in the digital economy – a trend that ITA anticipates will strengthen greatly through 2018. In today's business practices amongst leading M&E conglomerates, CEOs and top management follow (young) consumers closely before devising strategic plans and assigning marketing budgets, as consumers are setting trends, producing and disseminating entertainment content, and in some cases, directly competing with professional content production and dissemination, while wielding influence online through the use of social networks. Most M&E executives will agree the role of the consumer has changed from a passive listener or viewer to an active participant in the entertainment sphere, and their ability to impact businesses cannot be ignored or understated.

However, experts say that consumers are not spending at the rate they are using or consuming digital media, underscoring the fact that Internet access is currently a key feature in the growth of digital M&E, rather than consumer spending on digital content. In other words, consumers actively listen to or view a high volume of free (legal) digital media, but they do not purchase it at the same rate. Additionally, volumes of other

Figure 3: Consumers Supplement Traditional Entertainment with Social Media and Use it to Connect to New Entertainment*

"According to the report THR's Social Media Poll: How Facebook and Twitter Impact the Entertainment Industry, 88% of consumers increasingly use Facebook and Twitter to supplement traditional entertainment experiences. Within the study, it was found that consumers spend more time on social media platforms on a weekly basis than watching TV, viewing films, or finding clips on YouTube; even more than listening to music and texting. Even when people are watching TV or films, they are also on social media. The platforms act as a sort of connective tissue allowing consumers to multitask during their entertainment experience."

*USC Marshall School of Business: Exploring social business. "By the Numbers: Social Media's Impact on the Entertainment Industry"
https://www.ibm.com/developerworks/community/blogs/025bf606-020a-48e9-89bf-99adda13e9b1/entry/by_the_numbers_social_media_impacts_the_entertainment_industry?lang=en

consumers are illegally downloading, camcording, or otherwise accessing content without paying for it, creating an imbalance for the business community. According to interviews posted in the PwC Outlook report, a global M&E CEO noted that the cost of Internet access could take away from consumer spending on content and services, potentially limiting U.S. M&E exports in the future, or at least creating a weakness for the industry market place.

With the expansion of broadband Internet service, social networking sites have gained significant importance for M&E sectors in advertising, branding, generating consumer awareness, and building new customers. Digital and online advertising was fueled by this sector, as companies learned to target segments and consumers, and were able to measure impact immediately.

The social network industry is comprised of social network website publishers and developers and is expected to reach \$11 billion in 2014, with an annual growth rate of 25 percent. The industry employs more than 66,000 across more than 5,600 businesses in the United States, according to market research company IBIS World. Facebook, Instagram, LinkedIn, and Twitter are leading the charge.

Global Digital Marketing

Despite tremendous growth in online advertisement, television will still serve as the largest advertising medium by 2018, although Internet advertising is poised to take over by 2019 as it is expected to grow 10.7 percent over the next five years, narrowing the gap between traditional TV and online streaming, and signaling a sea change for the M&E industry, according to analysts at PricewaterhouseCoopers (PwC).

Global Film & Digital TV

Global filmed entertainment revenues will surpass \$100 billion in 2017 to reach \$118 billion by 2018 at a 4.5 percent growth rate. Box office will grow 4.9 percent in the years leading up to 2018 while physical home video (i.e. DVD and blue ray rentals and sales) will decline 4.8 percent, and digital home video (i.e. over-the-top (OTT), streaming and video on demand) will grow 19 percent, surpassing physical in 2018. By the end of 2015 the world's movie theaters will have fully converted to digital screens,⁴ marking the end of 35mm film distribution.

Combined with the upwards trending of OTT and streaming services which are expected to grow 28.1 percent globally during the five year period studied here, broadcast television and filmed entertainment has been transformed in to a digital sector led by HBO, Hulu, and Netflix and many new entrants to the marketplace. In addition, pay TV, VoD and IPTV are popular in many markets, and consumers have an array of sources to view content on and devices to download or stream content to for viewing. Filmed entertainment is pushing the non-digital consumer M&E market towards digital models.

Global Music

Global music sales will grow 1.2 percent, leading up to 2018, with much higher growth rates in digital music streaming (13.4 percent), and declining growth in recorded music (0.8 percent) and physical (-8 percent) music worldwide; with the exception of physical music growth in France (0.9 percent) and South Korea (2.3 percent). Live music will grow 2.7 percent during the same period, and emerging economies such as Brazil (6.3 percent) and Indonesia (8 percent) have become popular live music destinations. These figures do not show the wide variation in growth trends by country and segment, but do demonstrate the general struggle for the industry to capture a larger slice of market share, and growth of digital over physical music.

In emerging markets led by Nigeria (21 percent), Malaysia (10 percent) and China (8.5 percent,) the mobile music industry will grow due to the increase in affordable mobile phones. Digital music surpassed physical sales globally in 2014, and with the industry shift to digital from physical production and distribution, music is increasingly licensed digitally or online, although physical content is still in demand. The trend is the same with the other M&E sectors, although at a slower pace due to a combination of factors such as consumer demand, Internet access, production costs, and the regulatory environment in various countries that controls how media is handled in domestic markets and in cross-border transactions.

Global Games

Global video games will experience robust growth at 6.2 percent during the research period through 2018, and as with the other sectors, is set to experience a marked difference in digital versus physical games distribution with variations across regions. Games are one of the fastest growing M&E sectors worldwide.

Ranked by revenues and growth rates, the United States has the largest video game market, followed by China, Japan, South Korea, and the United Kingdom, France and Germany.

Nintendo (Japan) ranked as the top game publisher in 2014 according to Metacritic⁵. The second largest game publisher in the world is a French multinational company, Ubisoft, which developed the famous Assassin's Creed, Raving Rabbids, Just Dance, and Game of Thrones that are extremely popular in the United States.⁶ The top global game distributors by revenues are Ten Cent (China), Sony (Japan), Microsoft (USA), Electronic Arts or EA Games (USA), Activision Blizzard (USA), Apple (USA), Google (USA), King Digital Entertainment (UK), which is the largest game developer for Facebook and the creator of Candy Crush Saga, followed by Nintendo and Ubisoft.

Smartphone sales have spurred gameplay on mobile, and new features have enabled consoles to be viewed more as a piece of the living room furniture, such as X-Box One, spurring growth in console games as it appeals to a broader demographic, is used more frequently, and stays around longer than prior generations of consoles. Social games, such as Candy Crush Saga (U.S.) and Dragons (Asia) are very popular, but hard to monetize as consumers want to play for free. Increased broadband access is facilitating online console game growth; yet micro transactions are facilitating growth in online gaming. Mobile and PC online games are leading growth in the sector, and some question whether Microsoft and Sony will retain their leadership. Consulting firm DFC Intelligence estimates that 85 percent of the games industry will be digital by 2019⁷.

The Nature of U.S. M&E Licensing (i.e. Exporting Digital Content)

The global M&E industry has recently transformed to a digital content sector, revolutionized by the Internet and (mostly) 24-hour access, rapid broadband penetration, proliferation of mobile devices and smart phones, tablets and other consumption devices. Historically, physical media was produced and sold in hard copies or as masters, and music publishers, labels, film and TV studios, and game retailers made the bulk of their income from manufactured goods. Today, much of the physical product is available electronically or strictly produced and distributed digitally. For many small companies and artists, licensing of their content is a key method of earning revenues, including

monetization of digital content. Therefore it is critical for businesses to protect their intellectual property, in order to adequately and fairly monetize the content for rightful owners and creators.

M&E executives acknowledge that consumers are the single most important decision maker determining and influencing trends at a rate previously never experienced by the industry, and any savvy exporter is well advised to capture consumer behavior and demand in a given market, in order to create the best licensing deal possible. It is also critical that a licensor has registered a copyright with both U.S. and foreign authorities (laws vary by country) and, for the music industry, that the two copyright holders (the composition and the sound recording owners) are properly registered with rights collecting bodies in order to fully capture and monetize all licensing deals⁸.

Digital content sectors are often referred to as intellectual property (IP) industries as much hinges on proving the rights to copyrighted materials and content that is licensed, distributed, file shared, streamed, or downloaded globally. Parties to a licensing contract agree to a set of rights and uses of specific IP, whether it is text, images, film, audio files or other content.

It can be challenging to track digital content in global markets, and businesses and industry trade associations are forming partnerships to identify and educate consumers of legitimate websites and sources for finding and downloading such content legally. A few examples include a listing of music discovery services (found on the Recording Industry Association of America's (RIAA) website)⁹; a site dedicated to authorized digital music services; a partnership between the RIAA and the Music Biz Association¹⁰; and the Center for Copyright Information which offers educational resources for consumers and links to a one-stop site to access legitimate online platforms to rent, stream, or purchase movies and TV shows.¹¹

There are many reasons consumers engage in illegal file sharing, but chiefly it is either because 1) it is easy and a widespread practice, whether or not a consumer can afford to purchase digital content legally, and 2) because certain markets do not offer subscription services or they have heavy restrictions on legal access to a variety of content. Many consumers, especially in developing economies are frustrated that their country restricts creative content and M&E imports, including streaming and other services, creating a void in the market for legitimately available content. Restricting

cultural content can lead to increased piracy. Many consumers do not have reliable access to broadband, or simply cannot afford to pay for legitimate content online, and sometimes consumers opt to access the content illegally.

It is critical for all stakeholders, including creators, performers, businesses that sell and license M&E content, Internet service providers (ISP's,) partner companies, government and enforcement bodies, law firms (who specialize in IPR and M&E sectors), and educational institutions, to collaborate to offer sound copyright advice that is clear and simple to understand, as well as educational tools for use in groups and universities to stem piracy and illegal file sharing early.

Enforcement bodies must play their part and rigorously enforce the laws that protect creative content. The U.S. Government (USG) advocates robust IPR policy and encourages trading partners to protect IP. Many educational resources are available to stakeholders, including StopFakes,¹² a U.S. government portal, and the Special 301 Reports and other information on how creative content sectors are affected by copyright policies from the International Intellectual Property Alliance¹³. All of the key trade associations for the filmed entertainment, music and games sectors offer information and resources regarding piracy in their respective industry segments, and ways in which to inform about the problem and solutions to minimize piracy. A list of some of the key associations can be found in the appendix.

Challenges Facing U.S. M&E Exports/Licensing

ITA suggests that policy-makers remain mindful of two challenges facing the M&E industry in the years ahead. In order for the industry to continue to grow, the M&E industry must monetize the digital consumer and protect copyrighted material. Both rely heavily on consumer education, access to legitimate content, income to purchase, reliable distribution, technology tools, enforcement of IP laws, cooperation between Internet service providers (ISPs), media corporations and trade associations representing industry, as well as global policy and enforcement cooperation. The USG will continue engagement with interagency and Congressional stakeholders as well as industry partners and trade associations and foreign trading partners to ensure broad discussion of the issues and to raise awareness.

Focus on Small and Medium Size Businesses (SMEs)

The USG represents U.S. business interests in global trade negotiations and multilateral fora such as the World Trade Organization, the Asia Pacific Economic Cooperation, and the Organization for Economic Development and Cooperation. The government plays a critical role in working with foreign governments to build favorable markets for business expansion and trade, and frequently collaborates with foreign trading partners to address known trade barriers. Our clients represent both large and major creative content businesses as well as SMEs, and Indies.

ITA is creating opportunities for SME and independent studios, labels, music publishers, producers, and distributors of creative content to meet legitimate buyers and secure licensing deals in global markets. ITA represents the industry in trade shows and on trade missions, and can support SME industry marketing campaigns, virtual trade fairs, webinars and market research to highlight opportunities in foreign markets and the value of U.S. content, using the Market Development Cooperator Program (MDCP), International Buyer Program (IBP) and trade specialists across the United States and in foreign markets. A list of additional services offered to U.S. businesses can be found at www.trade.gov.

ITA works closely with the trade associations representing different segments of the industry; as both the major and independent groups represent important parts of the U.S. economy; and both large and small or medium-sized business seek out and rely on export guidance and resources from the Commerce Department. That said, USG has a long standing working relationship with the key trade associations for M&E sectors (a select few are listed in the appendix), and works across all segments of industry.

Although this is not exclusively the case, the majors and the trade associations that represent them tend to collaborate more on the trade policy and regulatory side of export assistance with ITA, rather than export promotion and related activities that are more tailored to SMEs. The trade associations that represent Indies and smaller companies are of course equally vested and engaged in the policy debates.

In this report, the country studies outline specific challenges and trends in each of the six top markets leading up to 2018. Despite strong competition coupled with trade barriers that will stifle growth in certain

markets or industry sub-sectors as outlined in this report, the United States will nonetheless remain the global leader and is expected to increase its market size leading up to 2018 and beyond.

Top Markets Methodology

The M&E top markets study explores six markets and analyzes revenue growth projections over a five year period from 2013 to 2018; utilizing data and revenue projections principally from the 2014-2018 PwC Global Entertainment & Media Outlook, unless otherwise stated in the endnotes. Additional information sources in the report include trade association reports, U.S. Department of Commerce export data, management consulting industry guides, information garnered from meetings and export projects directly with industry partners and business leaders, financial news sources, and other industry publications.

ITAs domestic and global offices were consulted for industry, business and IPR insights in each of the six countries studied, as well as trends in the United States. The public report has been reviewed by a handful of industry experts, trade associations and other business partners who have experience with trade in M&E sectors and whom work closely with ITA on export project and trade policy. *This report is not an assessment of how foreign markets view their own cultural content industries, trends identified by foreign governments of their own markets, or how popular domestic content is in each country.* ITA respects each market's unique characteristics and analysis which may vary from research presented here.

Determining 25 Top Markets

The report methodology includes an in-depth analysis of industry revenue growth and trends across three subsectors: filmed entertainment (which includes film and television), music, and video games, with an emphasis on digital expansion. Absent robust export data for each subsector, the 25 countries were ranked on growth, known or expected trade barriers, overall market conditions and the size of the population (with an eye towards consumer purchasing power,) the size of the M&E marketplace, piracy rates and the ability of governments to stem piracy, and regional comparisons to derive the robustness of a particular country against another in a given region. The list of 25 countries began with an early assessment of 36 markets, and from this research the six top markets were identified.

The country case studies, and rankings of the six top markets, are based on the following criteria:

- Export flows to the extent data is available and comparable across the top markets, including the historic trade relationship with the United States
- Copyright infringement and intellectual property rights readiness in each market
- Internet access and broadband penetration, and reliability as distribution channels
- Digital licensing and distribution growth potential
- Trade or market entry barriers including import quotas, cultural and content restrictions, withholding of box office receipt payouts and other payment matters, tax structures, foreign investment limits, unfair customs valuation, other protectionist measures, camcording, illegal file sharing, and piracy
- Other aspects of doing business in global markets, such as joint ventures, co-production, monetization, licensing requirements
- The overall trading environment, as well as infrastructure readiness and economic development
- Consolidation or convergence across M&E sectors
- Consumer behaviors and trends and the digital revolution, including growth of the middle class with purchasing power (especially in emerging markets).
- Ways in which the USG can support global licensing for creative content sectors

Focus on Digital Growth

The industry is strongly trending towards digital production, distribution and consumption, although some countries still have a strong physical market. In some countries physical piracy persists although with the global proliferation of smart phones and tablets, consumers are increasingly seeking digital content instead of VHS tapes or CDs. The digital approach was chosen as the industry, along with the high-tech and telecommunications sectors, is moving at a rapid pace and M&E sectors are expected to be especially affected by consumer demand for digital content and devices to access, view and share content on, new technology innovations, copyright laws and enforcement, Internet access and broadband penetration, pending trade agreements related to these sectors, and national laws and regulations in progress that may support trade and licensing deals. Also, there's a good measure of convergence across the digital M&E subsectors.

Figure 4: Top 25 M&E Export Markets 2014-2018*

Export & Licensing Prospects	Rank	Country	Market
Strong Prospects	1	United Kingdom	Larger Market, Large Share
	2	China	Larger Market, Growing Share
	3	Canada	Larger Market, Large Share
	4	Brazil	Emerging Market, Growing Share
	5	India	Emerging Market, Growing Share
	6	Mexico	Emerging Market, Growing Share
Moderate Export Growth	7	France	Larger Market, Smaller Share
	8	Germany	Larger Market, Smaller Share
	9	Russia	Larger Market, Less Certain Growth
	10	Australia	Moderate Market, Smaller Share
	11	Colombia	Moderate Market, Growing Share
	12	Italy	Moderate Market, Growing Share
Less Certain Export Growth	13	Nigeria	Emerging Market, Less Certain Growth
	14	Spain	Smaller Market, Less Certain Growth
	15	Turkey	Smaller Market, Less Certain Growth
	16	South Africa	Smaller Market, Growing Share
	17	Sweden	Smaller Market, Growing Share
	18	Switzerland	Smaller Market, Smaller Share
Small Markets, Strong Growth in Certain Sectors	19	Japan	Small to Larger, Moderate Growth
	20	Argentina	Emerging Market, Less Certain Growth
	21	Netherlands	Smaller Market, Growing Share
	22	Israel	Smaller Market, Growing Share
	23	Norway	Smaller Market, Growing Share
	24	South Korea	Emerging Market, Growing Share
	25	Singapore	Smaller Market, Less Certain Growth

*U.S. Department of Commerce, International Trade Administration

Determining Six Top Markets

U.S. ME&E content, know-how, and business acumen are in high demand worldwide, partially witnessed by the desire of many foreign companies and artists to enter the U.S. market place, or as demonstrated by large scale joint ventures in foreign markets; and partially for the high-quality productions and the American brand. Hollywood, for example, is a place, a brand, a business center, and the creative hub of the global filmed entertainment industry, which evokes images of glamour, red carpets, and world class entertainment – both for American and foreign consumers and businesses. The United States also has the most open content market worldwide, or the least restricted from a trade perspective, although it is not always easy for foreign entrants to comprehend the

varying State regulations in addition to Federal laws that governs licensing and business practices. On the other hand, U.S. content is sometimes shunned by markets that wish to protect or build their own robust M&E market place. The U.S. media and entertainment industry faces significant barriers in foreign markets, some of which will be discussed under each country case study.

To identify the top twenty five export markets, a list of 36 countries were reviewed, and an assessment was made of the following factors: the digital media landscape, growth in broadband or Internet access, box office revenues, TV and electronic home video subscriptions, over the top streaming (TV) services, digital music streaming and downloads, mobile music, physical music, video games on digital consoles, PCs,

online, and mobile, as well as known trade barriers, piracy rates, and economic development factors across the 36 countries.

The list of 36 was then narrowed to 25, based on growth in one sub-sector but losses in others, and considering the current political environment making growth prospects more tenuous in an otherwise robust M&E market, such as for example in Russia. In other cases, the country's entertainment sector and imports of M&E to said market, was found to be either too small or too nascent to warrant robust returns at this time for U.S. exporters who enjoy the largest and most relatively sophisticated domestic M&E marketplace in the world.

While arguably the last ten countries on the list of 25 (Figure 4) are largely considered sophisticated global players, the *overall market* is too small, too protected, or too young to yield returns in at least one significant subsector or more, compared to others on the list. Colombia, Italy, Nigeria, Spain and Turkey got listed ahead of the last ten on the list of 25, as they are each expected to experience good growth in one or more M&E sectors leading up to 2018. This does not automatically infer excellent export and licensing opportunities for U.S. companies, but with market conditions, size, and support from local government, there is a higher chance than otherwise, on the balance of the other considerations discussed in the methodology.

Highlights from the Six Top Markets

The six top markets identified here are located across the globe and found in Europe, North America, Asia and Africa. Four of the six top markets in this report are considered emerging economies with tremendous growth potential (in alphabetic order): Brazil, China, India, and Mexico, and two are more established economies with proven and arguably, more stable growth opportunities: Canada and the UK. While sales or export revenues may be higher in the developed markets, the growth rates may be exponentially higher in the emerging markets selected as top markets in this report.

Middle Eastern markets were eliminated in the early analysis, primarily due to the small size of the markets, of which several are just now developing their M&E sectors domestically, regardless of possible strong trade in other sectors. In addition, M&E content faces cultural barriers to content, sharia law, and other market access restrictions on investment and trade, that make it less attractive compared to other markets

at this time for U.S. content providers. That said, many of these markets are eager to collaborate with U.S. media and entertainment companies, and it is possible there will be good opportunities to bring U.S. technology transfer, know-how, and skills to said markets and such deals could present another measure of M&E exporting, as these markets continue to evolve.

Argentina is experiencing good growth in M&E sectors, but has one of the most protectionist markets of U.S. trading partners, making it virtually impossible for U.S. exporters to rely on deals in that country at this time. Japan is also seeing solid growth and is a large M&E marketplace but it is expensive to do business there and American exporters, especially small companies, may opt for a less expensive market, such as Mexico.

The Nordics, such as Norway and Sweden, have experienced solid growth in digital music and streaming services, thanks in large part to developments that evolved in Sweden's music industry¹⁴, but the market size is relatively small compared to other export markets, and, these are very expensive countries in which to do business. France has a rich cultural history and interesting M&E trends along with a large M&E sector, yet the strong cultural values may create challenges for U.S. entrants. Language and copyright issues further complicate trade between U.S. and French M&E sectors, however, there is very strong desire for U.S. content and know-how in France, as there is in much of the world.

Australia is also a solid M&E marketplace, albeit a bit fragmented due to the size of the country. It is far from global distribution centers and from the United States, making it more challenging and possibly more costly for U.S. distributors and exporters to travel and ship M&E content and merch than to certain other countries.

Israel, Italy, Netherlands, and Spain are experienced trade partners but smaller markets, each with various trade barriers, but all very much interested in U.S. content, and thereby more likely export targets of the very large corporations or small firms with a unique genre or content particularly popular in those countries.

The more established markets in Europe, North America and Asia have larger markets but slower percentage growth compared to many developing economies; nonetheless, many represent billion dollar export and M&E revenue growth markets, and even where physical product is declining, there is still a large

market, such as for example the music industry in Japan.

Filmed Entertainment

Movie-going is extremely popular in emerging markets such as Brazil, China and India. Nigeria's film industry is growing, but primarily in mobile and digital which some say may compromise on the quality of filmed entertainment, but, saves costs on physical space and equipment. Depending on the source consulted, all of the six top markets are amongst the top 10-20 countries in spending on movies worldwide.

Filmed entertainment is moving towards digital, streaming and satellite models, and movies as we knew it ten years ago will soon be a case for the history books. There are good growth trajectories in TV (joint-) production and licensing, especially for streaming content in all of six top markets. Many of the countries in the top 25 markets offer film incentives such as tax credits, in an effort to lure U.S. film production overseas, although smaller studios are advised to consider language, local players, infrastructure, professional labor, regulatory, cultural and other matters when filming in some emerging economies.

Music

The music industry is ever challenged to monetize and has good growth potential in several markets, but is persistently challenged by losses due to piracy, which are difficult to quantify, and by consumers who wish to listen to music on multiple devices for free. The industry is asking itself how it can compete with free.

Music intersects with technology and there is a tug and pull in the industry between the Internet and social media giants that promote and market music for free and streaming services that are criticized by some for not remunerating artists sufficiently, as witnessed in the high profile case where Taylor Swift dramatically withdrew her music from Spotify entirely, and varying regulatory environments that protect local creative content in the name of protecting culture and language at the expense of growth in the marketplace. There is a lot of volatility in the music sector and innovators are seeking the next big trend that will make money for this sector.

Mobile music has seen a spectacular fall in most markets, and no longer promises strong sales, although ringtones and ring back tones are still popular in some markets. Mobile music is on the decline in every market studied here, with the exception of China, the Netherlands, South Korea, and Turkey. It is hard to say if the mobile growth trends will sustain, other than in China and the Netherlands which reported very good growth trajectories, despite major growth in streaming or downloading music. However, mobile film and other production and use of mobile in entertainment sectors is on the rise worldwide.

Video Games

The game sector is growing dramatically in nearly every market and unless regulators decide to put the brakes on, the industry is set to take a bite out of global M&E revenues. Revenue growth for the video game industry is growing faster than the filmed entertainment and music sectors in North America, Asia Pacific, Latin America, Western Europe, and the Middle East-North Africa, although there are some variations by country. Only in Central and Eastern Europe does filmed entertainment lead over games, and only by a small margin. The games sector is expected to see very strong growth in the Eastern European markets as well.

Observations on Intellectual Property & Copyright Industries

All 25 markets are affected by serious content piracy, and many are rife with illegal music file sharing and camcording (*i.e.*, illegal recording) in theaters, as well as a proliferation of set-top boxes with pirated content, especially, but not limited to, Asian markets.

Most of the markets reviewed here with the highest M&E revenues are also markets with extremely high piracy rates and are listed in the submissions by the International Intellectual Property Alliance, which represents more than 3,200 M&E industry companies, in connection with the Special 301 report by USTR. There appears to possibly be a correlation between piracy and growth, contrary to what one might imagine, as can be seen from the data used in this research provided by PwC and market analysis by the IIPA and other industry analysis.

If there is in fact a direct correlation, the reasons could be that the more companies and content enter a market, the more it is pirated or copied and dispersed,

Figure 5: International Intellectual Property Alliance

The IIPA is a private sector coalition, formed in 1984, of trade associations representing U.S. copyright-based industries working to improve international protection and enforcement of copyrighted materials and to open foreign markets closed by piracy and other market access barriers.

IIPA's five member associations appear below, and represent over 3,200 U.S. companies producing and distributing materials protected by copyright laws throughout the world—computer and video games for video game consoles, personal computers, and the Internet; theatrical films, television programs, DVDs and home video and digital representations of audiovisual works; music, records, CDs, and audiocassettes; and fiction and non-fiction books, education instructional and assessment materials, and professional and scholarly journals, databases and software in all formats.

Members of the IIPA include Association of American Publishers, Entertainment Software Association, Independent Film & Television Alliance, Motion Picture Association of America, and Recording Industry Association of America.

The IIPA offers detailed explanation of M&E industry concerns in their 2015 Special 301 Report, available to the public.

Visit: www.iipa.com

and the more the companies fight to maintain a legitimate market place. Another theory is that the more established, larger markets have historically enjoyed very robust physical sales and while they are transitioning to digital market places, they still lead in M&E revenues, despite high piracy rates. The gap between high physical sales and the increasing revenues from digital trade is expected to narrow over the next ten years.

Further information on the three subsectors and more in-depth industry analysis is offered elsewhere in this report.

Country Case Studies

To illustrate the breadth of opportunities in foreign markets, ITA selected six countries for detailed case studies (in alphabetic order): Brazil (4), Canada (3rd), China (2nd), India (5th), Mexico (6th), and the United Kingdom (1st). Since each M&E subsector is different, ITA also included in the report sector snapshots that highlight particular challenges and opportunities in each subsector, as well as sector specific rankings.

ITA's recommendations are meant to provide suggestions for exporting and licensing to these markets, and exporters should consult with their local U.S. Export Assistance Center and consider current political and economic events when planning to export, license, or expand in to global markets.

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Brazil

Brazil is Latin America's wealthiest nation and in 2013 boasted a \$42.2 billion M&E industry, which is expected to grow to \$68.8 billion in 2018. By 2017, 93 percent of Brazil's population will live in urban areas (up from 88 percent in 2012), and along with the growing middle class, demand for M&E content is expected to rise dramatically. The 2014 World Cup and the pending 2016 Olympics have spurred growth for entertainment venues and companies providing live music, animation, and media tools.

Film	1	Games	3	Overall Ranking 4
Music	2	Television	3	

Brazil ranks fourth on ITA's list of top M&E export markets. U.S. exporters are expected to be particularly competitive in filmed entertainment and music, but will have to remain vigilant to protect copyrights and market share. Brazil is still developing its international licensing system, and while opportunities abound as Brazilians are just as eager to share their creative talent as they are to learn about U.S. M&E trends, trade barriers abound.

Exporters are advised to have a local attorney who speaks Portuguese, to advise on taxation and licensing laws, and to help navigate the copyright laws which have been in flux in recent years. Fraudulent payment systems and scams are other concerns for U.S. businesses in this marketplace.

Nonetheless, it is a vibrant entertainment marketplace. The film industry is well developed, while television is more localized and games are growing both for digital consoles and online. Music is a vital cultural force in

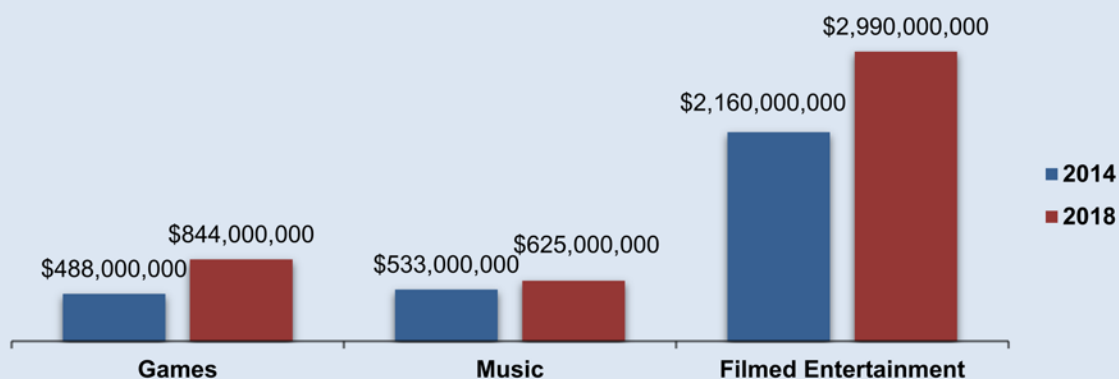
Brazil and there is demand for American jazz and electronic/trance, among other genres, in the Brazilian marketplace.

Overview of the M&E Market

Brazil is Latin America's largest media market and the only Portuguese speaking country on the continent. Brazil has thousands of radio stations and hundreds of TV channels, both very influential media with highly concentrated ownership that are tightly regulated by the government.¹⁵

The government is implementing its digital TV transition and will switch off analog in 2016. Presently, 17 percent of homes subscribe to pay-TV. Globo, Brazil's cable giant, counts almost half of the country's population as its viewership and offers pay-TV stations, magazines, radio, film production and newspapers, although the bulk of Globo's \$6.3 billion (2013) fortune comes from its broadcast network, which airs

Figure 6: Media and Entertainment in Brazil (2014-2018)*



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

telenovelas (soap operas) that are popular throughout the continent. Globo is not only the largest Brazilian media company, it is the largest in Latin America¹⁶. Steve Solot, President of Rio Film Commission confirms that despite the country's general economic deceleration, the film and especially TV industry is surging, boosting demand for content in all audiovisual segments.

The Brazilian government has announced its support for the film industry, and box office receipts are growing rapidly, but could be at risk due to weak economic development and due to the major sporting events that take place during the time of year typically associated with high movie attendance in Brazil. The Brazilian music industry is very diverse and localized, and certain genres of foreign music are more popular than others for export purposes, such as jazz, trance and lounge, rock, and folk, especially as many Brazilians begin to listen to and purchase music in foreign languages. American music is popular in Brazil, but Brazilian music is the most popular as many still prefer to listen to music in Portuguese. Brazilians are wired and digitally savvy, with 91 million people online. Consumers are easy to reach via online marketing campaigns. Among social media trends, YouTube is extremely popular.

The media is controlled by a small number of large corporations that are known to cater to the needs of their advertisers and the tastes of the general population. Access to radio is dictated by *pay for play* (with receipts and invoices), favoring the majors. Finally, Brazil is considered the gateway to the rest of Latin America for emerging artists¹⁷.

Challenges Facing U.S. M&E Exporters

Copyright industries doing business in Brazil face significant Internet piracy, as do products in the entertainment sector, such as CDs, DVDs, and other media carrying pirated music, movies, TV programming and video games. Circumvention devices that control access to video game consoles are a problem for all copyright sectors. That said, the industry faces roughly the same amount of Internet piracy as is found in any other middle income country, and Brazilians consume pirated DVDs and engage in illegal downloading. The activity is driven by high costs and taxes on entertainment, and lack of a full catalogue offering to the public, some of which is a governmental problem, and some of which is caused by the industry. Problems with enforcement for illegal downloads are being

addressed this year in a pending and long-awaited new copyright law. Brazil has significantly improved enforcement against hard goods piracy over the past five years, which includes DVDs/CDs. The new copyright bill will likely also contain express "fair use" exceptions and limitations.

Opportunities for U.S. Companies

U.S. companies that are willing to invest in the Brazilian market and build personal relationships with businesses in Brazil stand a fair chance at doing repeat business in this relationship-driven economy. The creative industry has always been vibrant in Brazil, and now the country is focused on building a world class M&E sector, a process that was intensified by the FIFA World Cup 2014 and in anticipation of the 2016 Rio Olympics. In preparation for the Olympics, opportunities are available for M&E companies that offer entertainment and event services, theme parks and related entertainment, live music acts, apps, and filmed entertainment.

Filmed Entertainment

The Brazilian filmed entertainment sector is slated to reach nearly \$3 billion by 2018, up from \$2.2 billion in 2013, at a robust 6.7 percent growth rate. Box office revenues will reach \$1.13 billion, growing 7.5 percent during the same five-year period. The Brazilian government reports box office revenue grew for the ninth consecutive year in 2014 to reach \$765 million (11.5 percent) while admissions increased 4 percent to 157 million, and admission prices increased 7.2 percent to 12.55 Brazilian Reals, which is roughly U.S. \$4. The total number of screens increased 6.6 percent to 2,819 and the number of digital screens 39.5 percent to 1,622. DCI (security) compliant 3D screens increased 22.5 percent to 1,039¹⁸.

It may be challenging to translate English content into Portuguese, although many movies are also dubbed. The fastest growth will be in electronic home video which will rise at an impressive 22.4 percent to \$800 million in 2018 (from \$291 million in 2013), which will represent 27 percent of total filmed entertainment revenues. Even more astoundingly, over the top (OTT) streaming will experience a dramatic increase in revenues to \$363 million in 2018, rising 41.7 percent, and through-TV-subscription revenues will double to reach \$437 million by 2018 (up from US\$228 million in 2013)¹⁹. Content for TV and DVD, along with digital streaming and subscription services therefore offer

good growth opportunities in Brazil, especially content that is localized or offers new genres.

The Brazilian government has dedicated many resources to grow the domestic filmed entertainment sector. In 2014, President Rousseff announced \$470 million in film and TV incentives aimed at cinema expansion under a project titled “A Cinema Near You.” This project is funded by the federal government and managed by the National Film Agency, Ancine, and its Audiovisual Sector Fund (FSA) in cooperation with the National Development Bank (BNDES). Both Rio and Sao Paulo governments also offer film funding and marketing for the domestic industry, via RioFilme and SPcine. While this bodes well for the local economy, it can also open doors for U.S. producers to partner with Brazilian producers of television series and films for TV, who will have access to additional production funds, which in turn could be beneficial in terms of translation of lyrics, subtitles on content, and generally for contractual interpretation.

Brazil’s audiovisual regulatory environment is complex and favors national content and production. Although there is a vast array of production incentives for national content in every format, there is no specific foreign production incentive. However, U.S. producers can partner with a Brazilian company to access local production funds. Federal regulations for audiovisual projects overseen by Ancine have been criticized by local producers as overly bureaucratic and slow, hindering the production process.

Despite rapid growth of transactional and especially subscription-based video-on-demand (VOD) services (both foreign and national) the federal government has issued a levy on VOD services that may restrict expansion of services catalogs to mostly highly commercial films which can cover the cost of the levy. The Ancine Regulatory Agenda 2015-16, published March 13, includes this item.²⁰

Television

Subscription TV offers excellent growth opportunities for companies that are willing to navigate the quota and taxation requirements levied on foreign providers.²¹ In 2012, the Brazilian government implemented a domestic quota for pay-TV (Law 12.485), which mandated new local content quotas for pay-TV channels and thereby created enormous demand for independently produced national content to be acquired or co-produced by channels in order to fulfill the quotas. While U.S. producers can partner with

local companies to produce series and TV movies, this represents a serious trade barrier. Pay-TV penetration was only 27.8 percent in 2013, in approximately 18 million homes, but is expected to grow 35.1 percent through 2018, dominated by Net Serviços (cable) and Via Embratel (satellite). Both are backed by Telmex, a dominant Mexican telecommunications provider with a strong presence across Latin America. According to official data from Brazil, total pay-TV subscribers reached 19.7 million by the end of February 2015, marking steady growth.

Pricewaterhouse-Coopers analysts suggest the satellite TV sector will see robust growth from 16.5 percent to 20.7 percent of television households, and IPTV is expected to expand beyond approximately 600,000 households in 2013 to 2.3 million in 2018, representing excellent opportunities for U.S. exporters. It is worth noting the latter will represent about 3.1 percent of TV households.

Music

When working with the music business in Brazil, it is important to understand the local culture and how the industry is represented in two distinct communities. One represents the traditional music industry including the major labels, music publishers, and radio. The other represents the independent sector which is strongly influencing the direction of the emerging and new Brazilian music industry, represented by young managers, do-it-yourself (DIY) artists, indie labels, indie music festivals, and social media.

Exporters will need to know which segment they are targeting when entering the market and plan on meeting with buyers in person to build the relationship. For Brazilians, this is very much a relationship industry. Fortunately for U.S. exporters, most people working in the music industry speak English and often Spanish too, in addition to their native Portuguese. Radio is still the most powerful medium to expose new music and gain attention for new releases in Brazil, and television is also a very important medium, with social media and online tools following closely behind.

Music sales across Latin America grew by only 1.4 percent in 2013, and digital sales accounted for 35 percent of revenues. Brazil and Mexico dominate the market and together account for 70 percent of recorded music income in the region, although 2013 brought declines in both Brazil’s and Mexico’s music markets²². By the end of the year, Brazil recorded \$533 million in revenue, and revenues are forecast to grow

4.1 percent to reach \$652 million in 2018, signaling better times ahead. Recorded digital music sales are expected to grow by 16.6 percent, while physical will decline by 4 percent during the same period. Of that, legitimate music downloads will increase by 33.3 percent and music streaming 13.1 percent, in large part thanks to the vibrant domestic independent music sector.

These developments signal strong opportunities for U.S. labels across a broad swath of genres. Subscription services are on the rise. While mobile music (with ring and ring-back tones in particular) sets the tone for early digital music development, it is now in decline with competition from new music services and wider broadband penetration, especially in urban centers. Illegal file sharing remains problematic as Brazil's copyright law is being revised but may not gain significant ground, possibly for years to come due to changing political players and multiple agencies involved with law making.²³

The Ministry of Culture has publically announced the Copyright Bill will be released this year. Spotify and similar services are flourishing, (and for perspective, so is Netflix, representing another creative content sector), and experts believe Brazilians are likely to halt illegal downloads and file sharing once costs become more reasonable. Licensing of digital music and participation in (live-) music festivals hold the highest potential for music exporters in the short run, until the industry is better protected by more robust anti-piracy laws.

Games

Brazil has the second largest game market in Latin America after Mexico, worth \$448 million (2013), and is expected to grow 13.5 percent over the coming years, almost doubling at \$844 million by 2018. It will then boast 31 percent of the region's total video games consumers. Social media is accredited with being a major driver for this sector, and online games are tremendously popular.

Sales of game consoles will increase at a 14.8 percent rate to reach \$212 million in 2018 (from \$106 million in 2013) despite the almost 90 percent import taxation on consoles which encourages illegal trade and stifles growth in legitimate video games and consoles²⁴. New technologies will help stem piracy in the console sector, such as consoles with improved methods for detection and blocking that prevent play of pirated games on consoles, along with next-generation consoles equipped with anti-piracy software, and newer games that offer in-game downloads and multiplayer gameplay which must connect to official servers to verify legitimacy before allowing access to the games. Combined with improvements in Brazilian regulations to reduce tariff and taxation and enforce piracy, the game console sector should grow.

Free-to-play mobile and online games will grow, thanks to the high cost of video games, which will also lead to high advertisement revenues in the market place. Lastly, the Brasil Game Show (BGS) will take place in Sao Paulo October 8-12, and more information is available at: <http://www.brasilgameshow.com.br/>

Canada

The Canadian M&E industry will grow at a respectable five percent CAGR during 2013-2018, from \$46.6B to \$59.4B. Canada is positioning itself as a world leader, including with extra value added segments such as: filming and co-production incentives for foreign investors, a vibrant game developer's marketplace, and a strong focus on copyrights to build the foundation for a robust music sector. Canada's switch to a digital M&E sector is driven by an increase in broadband penetration, from 66 percent of households in 2013 to 75 percent in 2018. Canada invests heavily in its domestic creative economy, and besides implementing content restrictions to protect the domestic market, large subsidies are provided to startups and artists, representing competition for U.S. entrants.



Canada ranks third on ITA's list of top media and entertainment export markets. There is strong demand for U.S. M&E content in Canada, while at the same time the government is serious about protecting local creative heritage, skills, and languages. Canada and the United States are each other's main trading partner with strong commercial ties. The United States has groomed many a famous Canadian entertainer as their own, while Americans enjoy Cirque de Soleil, Celine Deon, Assassin's Creed, and many other Canadian M&E exports.

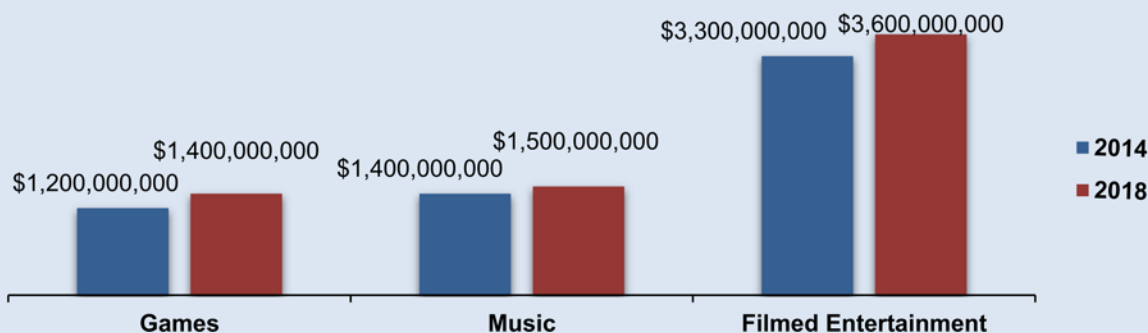
With a stable and well-developed economy, highly educated population, and strong high-tech and media sectors, it is no surprise that Canada ranks third on the top markets list. U.S. exporters will do well in filmed entertainment, including filming, co-production, and

distribution of movies, as well as licensing television content for OTT/streaming. Digital music downloads and streaming music are growing at a steady pace although taxation and cost of business can be prohibitive vis-à-vis the U.S. dollar. The games sector is flourishing, and U.S. exporters may easily find collaborative or new opportunities in the Canadian market to match the high-tech expertise and R&D found in the U.S. marketplace.

Overview of the Market

The strong services trade with Canada sets the stage for robust M&E exports to flourish, although it is also a relatively heavily regulated market. Canada provides some of the most impressive subsidies to its creative sectors, which in turn create a slew of barriers to

Figure 7: Media and Entertainment in Canada (2014-2018)*



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

foreign investors, and in an effort to protect culture, also create barriers to M&E entrants. The Canadian Radio and Telecommunications Commission regulates media ownership, and television broadcasting has both government (Canadian Broadcasting Corporation or Société Radio-Canada) and private owners.

Filmed entertainment is geared towards North American consumers, and there are many cooperative arrangements and opportunities between the two countries in the film industry. The Canadian Radio-television and Telecommunications Commission (CRTC) regulates music broadcasting. The Canadian Academy of Recording Arts and Sciences administers Canada's music industry awards, the Juno Awards, similar to the U.S. Grammy's.

Opportunities for U.S. Companies

Filmed Entertainment

Canada's filmed entertainment market will grow at a modest 1.8 percent between 2013 and 2018, from \$3.3 - \$3.6 billion, and box office revenues will constitute 40 percent of the 2018 earnings, growing itself at 3.2 percent. The U.S. filmed entertainment industry enjoys a robust relationship with Canada.

While Canada holds co-production treaties with over 50 countries, the United States conducts joint projects without such an official agreement, and both tax and filming incentives are available.²⁵ OTT and streaming content will grow between 22-24 percent during this period. While physical home video will continue to decline, albeit to reach \$1.14 billion in revenues by 2018, TV subscriptions will experience a slow but steady rise at 3.8 percent leading up to 2018.

Netflix is expanding rapidly, and video rental kiosk company Digiboo is establishing itself in the Canadian market, signaling growth opportunities both for digital content and physical rentals. Cineplex is operating successfully in the market as well, offering digital rentals. Canadians are increasingly choosing TV series over feature films, and movies are more often viewed on TV than at the theaters.

Consumers are accessing content on-demand across multiple platforms. There is also a disparity between demand for French versus English language content, which warrants further exploration and could signal good growth opportunities for U.S. content creators of English filmed entertainment, if targeting the right market segment.²⁶ The Canadian government requires

60 percent of televised content to be Canadian, and Canadian broadcasters have to spend 30 percent of their revenues on Canadian programs.²⁷

Music

The Canadian music industry will grow 2.2 percent, during the period 2013-2018, from \$1.34 billion to \$1.5 billion. The growth opportunities can be found in digital music, as streaming is expected to grow by 14.6 percent and downloads by 9.8 percent, representing excellent opportunities for U.S. music. Digital revenues grew 13 percent from 2012 to 2014, to reach \$261 million or 51 percent of Canada's music revenues, and overtook physical revenues, which declined by 6 percent. Content restrictions are in place for radio play; 35 percent of radio content must be Canadian, and 30 percent of radio play between 6am-6pm Monday-Friday must be Canadian content. Further regulations concerning music play can be found on the Canadian Radio-TV and Telecommunications Commission's (CRTC's) website.²⁸

Games

Video games are set to reach \$1.43 billion in 2018 (5.4 percent growth) from \$1.10 billion in 2013. Growth has been spurred by mobile gaming and game consoles, as well as in related advertising revenues. While computer games are declining (digital PC games will grow 4 percent, but physical PC games will decline 21.4 percent during the same time), console sales constituted 62 percent of the 2013 market, and unlike in other developed economies, will remain robust, only dipping two percent to 60 percent by 2018. Digital console games will grow 17 percent between 2013-2018, demonstrating the shift from physical to digital distribution and consumer demand for digital. Mobile games will continue to grow and "84 percent of Canadian video game companies are actively working on products or services for mobile platforms," signaling intense focus and opportunities in the mobile sector²⁹.

Challenges Facing U.S. M&E Exporters

There is significant demand for U.S. content in Canada, and U.S. exporters have a lot of opportunities in the market. However, online infringement is high and enforcement action weaker than expected considering the advanced marketplace. There have been complaints of illegal and uncompensated retransmission of TV content, and unfair discrimination against music public performance, which are both presently being discussed by the two governments and industry representatives.

China

China's M&E industry is on track to reach \$219.4 billion by 2018. China has the second largest economy in the world, powered by state-owned enterprises (67 are listed on the Fortune Global 500). The population of 1.3 billion has more than 600 million Internet users and 500 million mobile Internet users. Wifi is widespread and free, but free speech is curtailed and Internet sites are monitored and blocked for offensive content. China's growing affluent middle class is seeking quality and diversity of entertainment products and services. The government has put its weight behind promoting culture, and is building movie theaters at a furious pace, now standing at 23,600 screens (compared to 40,000 in the United States) and more than 3,700 theaters and growing and with an estimated 60 million movie goers, there are excellent M&E growth opportunities in the world's most populous country.

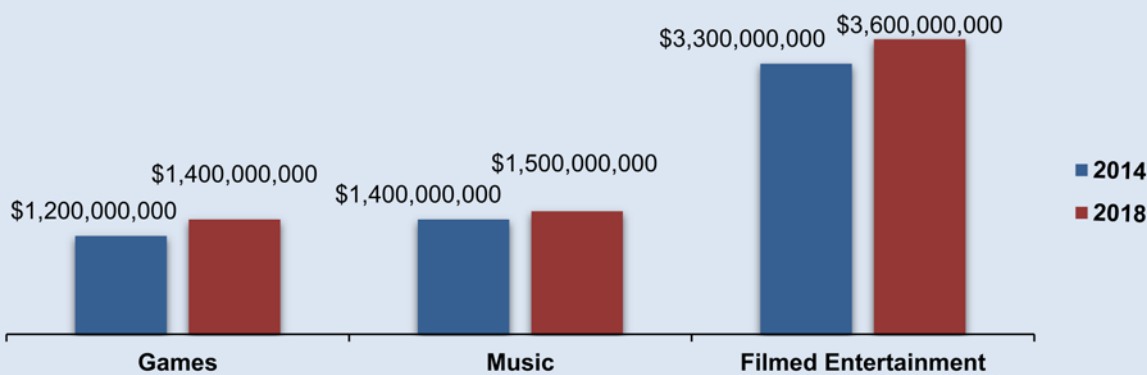


China ranks second on ITA's list of top M&E export markets by sheer size. China offers a powerful, large market place and the government is making sure the entertainment industry is rising to the challenge to match global markets and offerings for its vast consumer base. However, trade barriers such as content restrictions and rules for Chinese ownership limit how U.S. exporters can access and trade in this market, hence it ranks second. U.S. film producers and distributors can enter coproduction agreements or other entrusted production agreements to bring U.S. content to film and TV viewers, both in theaters and online.

The music industry is also growing, and is equally challenging to enter due to regulatory restrictions and state mandated censorship approval. Demand for Western music, while popular (especially American music) has not developed to the same degree as K-pop (Korean pop music), and Chinese opera and other local content is still very dominant in the Chinese marketplace.

The games sector is also booming, and both digital console and online games are facing robust growth in the next five years, presenting excellent opportunities for U.S. exporters who would like to enter the marketplace with a Chinese partner. With 13 percent of

Figure 8: Media and Entertainment in China (2014-2018)



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

the world's global mobile revenues, a new trend has emerged with games spreading due to the popularity of mobile chat apps.³⁰ Piracy plagues China and both nations are working to improve copyright and IP protections.

Overview of M&E Market

China's M&E market is growing faster than the overall economy as the government has strategically invested in M&E and the growing middle class consumer base can afford to spend on entertainment. The Chinese government has emphasized training in the Chinese M&E industry and has increasingly made capital available to the cultural and entertainment sectors, while cautiously allowing foreigners to invest, such as for example creating an M&E investment fund in collaboration with Singapore and a media project with U.S. media conglomerate Time Warner, to note just one example.

In addition, both governments view this industry focus as a "soft power" tool in a five year plan to grow the domestic industry and increase China's global influence, as well as their image abroad³¹. There is high demand for mobile games, film, and Internet use, and some experts advise new exporters to start investing in second or third-tier cities that have established international business ties and active ports before venturing to the capital and so-called first-tier cities like Beijing and Shanghai that are more competitive.

Opportunities for U.S. Companies (by Sector)

Filmed Entertainment

China's filmed entertainment sector is expected to grow 13 percent by 2018, to reach \$7 billion, almost doubling from \$3.8 billion in 2013. This is due to China's policies to stimulate the sector, build its domestic movie production and digital theaters and expand the role of co-productions, as well as addressing their quota system and increasing revenue sharing imports. According to official statistics released by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT), box office receipts increased 36.1 percent to \$4.6 billion by year end 2014, and 54.5 percent of it was generated by Chinese films. Chinese screens increased by more than 5,000 in 2014, compared to only 100 a year in the United States since 2010.³²

China boasts the second largest theatrical market worldwide after the United States, and box office

revenues are on a meteoric rise and are expected to reach \$90 billion (13.5 percent) by 2018. This is a main driver for the sector.

In 2015, foreign films had a 45.5 percent market share, in large part due to the success of the U.S. blockbuster *Transformers: Age of Extinction*, and 67 foreign films were released in China in 2014. Thirty-three of those were released on a flat-fee basis and 34 on revenue-sharing basis, meeting the full quota of films³³. The U.S. – China film deal of 2012 allows for 14 additional movie imports of new format films in 3D or animation on a revenue sharing basis. China's overall import quota on a revenue sharing basis now stands at 34 films annually for all countries. Co-production is gaining in popularity, and several major Hollywood studios as well as indie film makers engage in these deals with China.

Whether importing or co-producing, foreign firms interested in working with China will have to understand how to address SAPPRFT regulations for the industry, including cultural and content restrictions, and garnering data and earnings from unclear box office reporting. There are two major modes of co-production in China: joint production (collaboration) or assisted production (entrusted production). Joint production, or "co-pro," is considered a domestic film and not subject to the quota, and will also be at least 51 percent Chinese-owned. In an entrusted production agreement, the foreign party puts up 100 percent of the capital; the Chinese side produces the film, but it counts as a foreign film under the import quota.

U.S. exporters and licensors also face a marketplace with widespread piracy of creative content, and are advised to conduct a cost-benefit assessment prior to entering the market. The Department of Commerce offers IPR resources specific to the China market, available on www.stopfakes.com. In addition, the China Film Group controls distribution of imported movies and investors will have to either use a joint partnership or hire U.S. or local experts to help maneuver the bureaucracy. It is a must to speak Chinese or have a local representative who is fluent in Chinese (Mandarin on the mainland) when doing business in China.

U.S. producers and exporters will compete for the online generation in China with the "BATs," namely the three Internet giants in China: Baidu, Alibaba, and Tencent, which have all moved into film production³⁴. Dalian Wanda Group, China's largest cinema owner, which acquired U.S. AMC in 2012, is building a movie studio to rival Hollywood studios in Qingdao, a major

port city in eastern China, with a \$160 million fund to attract producers.³⁵ The studio is set to open in 2016 with a theme park, film museum, wax museum and a colossal film studio.

China has the largest cable market in the world with 216 million cable TV subscribers. Via the media giants Tencent, Baidu, LeTV and Youku Tudou, Through-TV-subscription revenues are projected to reach \$390 million in revenues by 2018, up from \$238 million in 2014 (10.4 percent). Electronic home video is expected to reach \$340 million (18.4 percent), driven by smartphone and mobile expansion. OTT and streaming will grow at a whopping 31.5 percent from \$102 million to \$402 million during 2013-2018, and China is the largest IPTV market in the world, yet this sector is also under siege from piracy.

Effective April 1, 2015, SAPPRFT requires foreign films and TV series to register for a “publication license” in order to show content and stream online³⁶. Imported TV series also have to be reviewed by China’s censorship authority in their entirety before streaming on the Internet. This will have a huge impact on weekly shows. Programs that were not registered by March 31 will be removed from VOD platforms. Finally, a recent 30 percent limit on foreign TV shows and films has been implemented, creating challenges for U.S. industry and raising questions in the context of the 2012 film agreement which promised to make the process of importing films easier and more transparent.

Music

China’s \$714 million (2013) music market is dominated by local content and is expected to reach \$1.08 billion in 2018 (8.6 percent). Of this, recorded music will grow 9 percent to reach \$810 million, led by digital revenues and mobile devices. By 2009, digital had substantially surpassed physical recorded music and in 2013, the ratio was \$506 million digital to \$21 million in physical revenues. This is expected to expand to a ratio of 80:1 or \$800 million digital and only \$10 million physical recorded music revenues by 2018.

In contrast to most music markets or any of the top markets in this report, mobile is king at \$663 million, dwarfing both streaming services (\$54 million in 2013, expected to reach \$119 million by 2018) and legal downloads which will grow from \$12 to \$18 million during 2013-2018. The live music market is growing

and reached \$188 million in 2013, and should expand to \$268 million in 2018, presenting performance and touring opportunities for bands that are able to connect with state and festival organizers for a slot for foreign entertainers.

Piracy of creative content is a very significant problem. In 2012, USTR reported that 99 percent of music downloads constituted illegal file sharing in its annual Special 301 Report, where China remains on the Priority Watch List of countries with the most rampant piracy rates³⁷.

Games

China has the second largest video game market in the world after the United States, with Japan coming in third. The Chinese games sector posted \$8.8 billion in revenues in 2013, and should grow to \$12.3 billion in 2018. Recently, China ended the ban on the sale of game consoles such as Xbox and PlayStation, but circumvention devices are proliferating, presenting challenges for new and existing entrants to that market segment. Roughly 345 million Chinese play online games (close to the size of the entire U.S. population), which accounts for the bulk of the industry revenues, and has spurred growth in Internet services revenues. The marketplace consists of 65 percent online client gamers, 16 percent browser gamers, and 4 percent PC gamers. The sector will generate game-related ad revenues of \$371 million by 2018 (14.7 percent).

Challenges Facing U.S. M&E Exporters

China remains on the U.S. Special 301 Priority Watch List for IPR due to heavy piracy, especially online, on mobile devices, and from the proliferation of media or set-top box piracy. Rogue manufacturers can access, pre-load, and store unauthorized content, including pay TV, movies, music, and games and sell them (cheaply) to users who seek access to premium content without paying subscription or market prices. Consumers can also download content from a multitude of illegal sites, onto set-top boxes or other devices. The set-top boxes are sold all over Asia, including markets where much of the content is not even legally licensed, creating deep losses to rights owners and M&E firms. Pay-TV and signal theft is also on the rise, and illegal camcording of movies in theaters is widespread.

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India

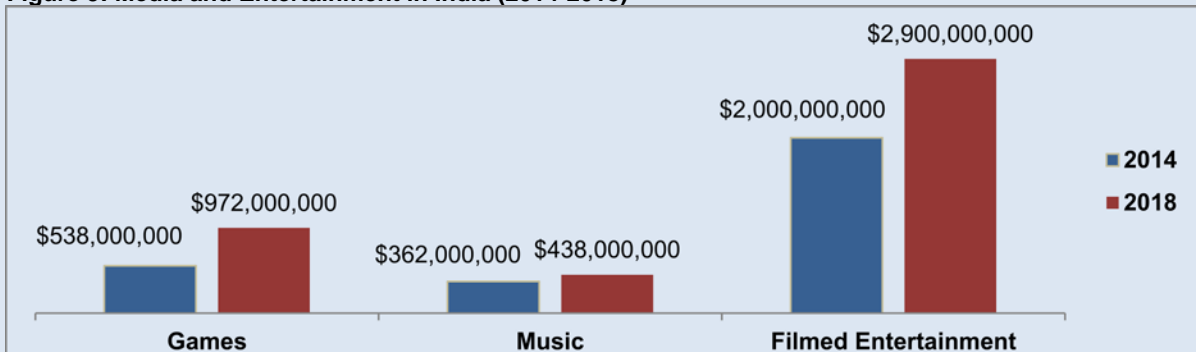
India's vibrant M&E industry, known as Bollywood (which technically refers to the North Indian film industry but is used universally to describe India's entertainment industry), is expected to grow to \$40.3 billion (11.6 percent CAGR) by 2018, led by digitally driven revenues. The country will outpace M&E spending across the Asia Pacific as well as globally through 2018, due to Internet advertising, video games and Internet access growth (but surprisingly not as much from content spending). Nominal GDP in India will grow at 14 percent during the same period, thanks to a growing economy and middle class, with rapid urbanization (35 percent of the population will live in urban areas by 2017) which creates demand for M&E services. Bollywood (the Hindi language film industry based in Mumbai, India) & Kollywood (the Tamil language film industry based in Chennai, Tamil Nadu) outshines the rest of the world by producing the most films globally, although the U.S. exports the most movies.



India ranks fifth on ITA's list of top M&E export markets and is expected to show robust growth in all subsectors, with one exception, online video games, which will grow, but not at the same speed as the other sub-categories discussed here. Although Bollywood is a major entertainment industry power player, and also a generator of a lot of popular music in India, it is not as easy for foreigners to break in to the Indian marketplace. There is tremendous demand for U.S. content, but many access it for free. There are many languages and regional dialects in India and Indians predominantly seek out local content, although there is robust demand for anything associated with American M&E sectors.

The over the top streaming sector is developing rapidly and presents excellent opportunities for U.S. companies that can hire a local agent who speaks the language(s) and will handle the A-Z's of doing business in India. There are opportunities in the market but it will take significant expertise to protect your investment and monetize the growing middle class consumer population. Global investment analysts contend the Indian market will experience excellent growth, which signals investor confidence in the market; yet, for the creative sectors to benefit, there must be robust copyright protection. Opening the sector to further FDI would bring in new capital, technology, and content, improving the market for the consumer and industry.

Figure 9: Media and Entertainment in India (2014-2018)*



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

Overview of M&E Market

The \$26.4 billion India M&E industry is dominated by film, television and Internet access and is expected to grow at a 12.4 percent rate between 2014 and 2017. India has the third largest Internet market after the United States and China, with 302 million Internet users, but reigns supreme with 900 million mobile users. Television penetration is at 65 percent today, and will grow another seven percent by 2017, and along with AGV (animation, gaming and VFX) will lead industry growth. India has digitized cable TV, and direct-to -home (DTH) subscriptions are rising³⁸.

Movie going is the national pass time next to watching cricket, and multiplexes are being built at a rapid rate. Radio and Music remain a prominent source of revenue and future growth is likely to result from digitization of distribution methods as a means to reach a larger number of consumers more efficiently. India's Prime Minister is dedicated to a 'Creative India; Innovative India', a slogan used in the forthcoming national IPR policy; and creating a 'Digital India' by 2019³⁹. However, some experts caution that innovation in India will not only come simply as a result of increased capital investments, but with institutional change that addresses corruption, educational levels, intellectual property protection and high taxation.

In the 2014 Global Innovation Index Report⁴⁰, India scores low points on government effectiveness, regulatory quality, and ICT access⁴¹, so while FDI is increasing, the infrastructure and human capital to translate this in to an innovation economy still needs development and intervention by the government.

There is incredible growth in digital sectors, but it remains to be seen how robust the opportunities will be for U.S. exporters over the long haul, due to inconsistencies in how the Indian market operates and the inability of the government to stem piracy. Yet, there is a lot of enthusiasm in the business community to trade with U.S. companies, and U.S. content is ever popular amongst Millennials and middle class with purchasing power. The Government of India notes that increases in FDI, higher broadband penetration and the increased use of 3G and portable devices will spur growth in M&E sectors⁴².

Opportunities for U.S. Companies (by Sector)

Filmed Entertainment

Filmed entertainment will grow 105 to \$2.9 billion in 2018. There are opportunities for joint projects and local language content across India. Box office revenues and movie attendance is rising, and multiplexes continue to be built, while 3-D and animation skills are needed, offering very good opportunities for U.S. firms with new format expertise in the film sector. Home video such as over-the-top (OTT) streaming and subscriptions for TV and e-videos are rising dramatically – offering U.S. licensors tremendous opportunity if they can navigate the licensing regime and rampant piracy.

India has the world's third largest T V market, after China and the USA, with 161 million TV households. The country has a robust and large broadcasting and distribution sector, with approximately 796 satellite T V channels, 6000 multi- system operators, 60,000 local cable operators, 7 DTH operators and 4 IPTV service providers. TV penetration in India is about 65 percent and is expected to reach 72 percent by 2017⁴³, and with the digitization of cable TV in India which was just finalized over four-stages, the direct-to -home (DTH) subscriptions are growing rapidly, driven by content innovation and product offerings, offering very good prospects for U.S. licensors.

The greatest growth in the filmed entertainment industry will come from OTT movie-streaming services. Local OTT providers include BIFFlix, Spuul, BOXTV and ErosNow. India is emerging as the teleport hub of Asia and 86 teleport permissions have been issued by the Ministry of Information and Broadcasting.

The Government of India has supported the growth of this sector with various initiatives such as digitizing the cable distribution sector to attract greater institutional funding and increasing the FDI limit from 74 percent to 100 percent in cable and DTH satellite platforms. Today 100 percent FDI is permitted in film and advertising as well as TV broadcasting.

Music

Live music (14 percent,) digital downloads (12.1 percent,) and streaming (10.1 percent,) have excellent growth trajectories, but sales of physical music is declining heavily. Overall music revenues will reach \$438 million (4.8 percent) by 2018 and there is plenty of room for growth, including in live music performances. Although live music is growing, neighboring countries draw larger and more frequent

acts, such as in Singapore, Malaysia and Japan. The market could develop more music arenas and music festivals, and this is a potential growth area for U.S. investors.

Large brand names are targeting younger consumers with music online. There are concerns regarding illegal file sharing due to low income levels and a proliferation of content online that is easily accessed. Weak IPR laws and copyright enforcement contribute to the challenges, which have led to dramatic increase in illegal downloading of music. However, there is also an upside for legitimate distribution and downloads.

Although the FM radio sector has expanded by opening 338 licenses for private investment, just 24 percent FDI is permitted in the radio broadcast industry. Phase-III of e-auctions for FM radio licenses is underway and the renewal of licenses from phase II to III is being implemented in 69 existing cities for 135 channels, which will improve the market opportunities for new entrants from the United States.

Video Games

Video games will grow 16.7 percent to \$972 million, with the highest growth in mobile, consoles and advertising. Mobile game revenues will reach \$425 million by 2018 (19.7 percent), constituting 44 percent of India's total game revenues, and is the fastest growing game segment. Rapid smart phone penetration has been a major driver of mobile and online games. There are good opportunities for U.S. game developers to enter this market segment and forge partnerships with Indian game developers. Sony

and Microsoft dominate the console and PC marketplace with PlayStation and Xbox 360.

Mobile Applications

The rapid expansion of the smartphone market is an important factor to consider when analyzing the export potential for M&E content to India. Smartphones in India are slowly becoming affordable with prices dropping to less than \$100. By 2017, smartphones will constitute 60 percent of the Internet-enabled device market. The proliferation of 4G technology will allow for greater access to mobile Internet platforms and better content quality.

Challenges Facing U.S. M&E Exporters

There is a commitment from the highest levels of government to the digital economy. While exporters can do business in an environment rife with piracy, a weak professional and distribution infrastructure, and sometimes questionable financial transaction dealings, anyone working there will learn to appreciate that India will remain a land of contrasts. The country is growing and wishes to correct piracy, yet enforcement is inconsistent and the laws are not keeping up with global standards. International Intellectual Property Alliance (IIPA) member companies report serious online and mobile piracy, illegal file sharing of music, cam cording in theaters, and rampant signal piracy of pay TV content⁴⁴. Market access barriers abound as well. Yet, it is a huge marketplace. In this market, it will be important for U.S. exporters to avail themselves of IPR tools and local representatives who speak the language(s) and are well-connected in the relevant industry sub-sector.

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Mexico

Mexico's M&E industry is set to grow at a CAGR of 7.3 percent to reach \$35.2billion by 2018. Nominal GDP growth at 6.7 percent and increasing household consumption, urbanization and broadband penetration (to reach 75 percent in 2018) signals a larger consumer base for M&E sectors. In 2010 the Mexican government launched a \$20 million film tax incentive program aimed at encouraging both domestic production and encouraging foreign investment in the filmed entertainment sector. Piracy is a significant challenge and neither the legal framework nor enforcement is particularly effective in protecting creative content, and therefore this is a major policy focus for both governments.



Mexico ranks sixth on ITA's list of top media and entertainment export markets in part due to its proximity to the United States and in part due to its proximity to Brazil. The two power-houses, Brazil and Mexico, dominate M&E across Latin America, and as a NAFTA partner, Mexico has much untapped potential for exporters in these sectors. The two largest growth sectors will be over-the-top streaming and digital console games.

This is especially true for American producers that can deliver Spanish language content or M&E tailored to cultural preferences in the demanding tele-novela marketplace. Music is already so vibrant in Latin America and there is taste for U.S. content but it will vary by region and population, requiring close scrutiny of the marketplace by each licensor. Piracy is so ingrained in society that it is challenging to encourage legitimate consumption of music.

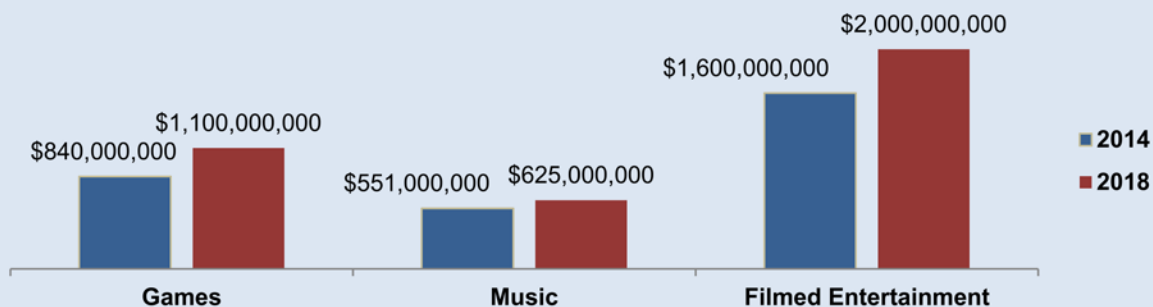
The film industry is large, and while there have been many joint projects, one concern for U.S. producers is safety of crew and equipment.

Overview of M&E Market

As a NAFTA partner, Mexico is an attractive market for U.S. businesses and the country is trying to develop its exhibition industry, as part of a broader economic plan to encourage commerce and tourism. Mexico's revenue from trade shows will reach \$357 million in 2018. U.S. based Reed Exhibitions has recently made inroads into the predominantly Mexican owned exhibition sector by acquiring two major trade shows, boding well for the U.S. M&E industry.

Partnering with a major organization, like Reed, that has vast experience with M&E sectors can create the sense the Mexican market is ready to invest in

Figure 10: Media and Entertainment in Mexico (2014-2018)*



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

resources to build infrastructure that will support investments from M&E companies.

Mexican entertainers and industry leaders are bringing their international success home, in a move to build the domestic sectors, and the increased knowledge of how M&E business is conducted in global markets will be advantageous to U.S. partners entering this market⁴⁵. With strong broadband penetration and more than 50 percent of the population owning smart phones, or 65 million connections, digital M&E sectors are set to see new growth.

Piracy in physical and digital M&E segments is rampant in local market stalls, and digital piracy is also high, constituting a serious threat. At the same time, demand for U.S. content is very high in Mexico that many jokingly lament “so close to America, so far from God”; in the case of this industry it might just be a good thing for both parties.

Opportunities for U.S. Companies

Filmed Entertainment

The robust Mexican film and television market will grow to \$1.9 billion (4.7 percent). That growth is attributed in part to a 2013 bill that allows greater competition for broadcast TV and telecommunications. By 2018, box office revenues should reach \$1.2 billion, up from \$940 million in 2013 (4.7 percent), and admissions are also increasing, expected to reach 265 million by 2018, up from 239 million in 2013. The film industry has experienced a surge in recent years after decades of low growth. U.S. blockbusters still dominate Mexican movie theaters but the burgeoning domestic film production market is taking hold. There is excellent opportunity for U.S. producers who would like to collaborate with local film and TV producers, especially with Spanish-language content.

In 2013 the Mexican government introduced a reform bill to increase telco and broadcast TV competition, and the market place responded very favorably. Digital home video is growing rapidly, as it is in most of the world, and will overtake physical by 2017. Netflix was an early entrant that helped with this trend in Mexico. Revenues will reach \$393 million in 2018 (14.2 percent,) but over-the-top and streaming will really lead the growth with a whopping 105.5 percent to reach \$58 million by 2018. TV subscriptions will grow at a smaller rate, yet earn higher revenues at \$335 million by 2018 (10.8 percent).

Music

Mexico has Latin America’s second largest music market after Brazil and will reach \$539 million in 2018 (3.6 percent). The expansion in digital recorded music and Internet-enabled devices has offset losses from CD sales. Downloads, dominated by iTunes, are extremely popular (11.8 percent). Subscription services are growing exponentially, with every major service operating in the country. Streaming services will grow 16 percent to constitute almost a third of digital recorded music sales by 2018.

Live music is larger in Mexico than anywhere in Latin America and will reach \$315 million in 2018. Corporacion Interamericana de Entretenimiento (CIE), is the largest concert venue in Mexico and is also the exclusive distribution partner in Mexico for global concert promoter Live Nation. There is excellent export potential for live performances⁴⁶ and in the subscription service arena which is expected to account for 29 percent of total digitally recorded music in Mexico by 2018.

Piracy is a perennial problem in Mexico and U.S. investors are advised to seek counsel on how to best protect content as it is a fact of doing business in Mexico. The Mexican government is working to stem both physical and digital piracy, as are Mexican music industry leaders such as. Multimusic, Mexico’s leading music content broker for independent artists⁴⁷.

Games

Video games are growing fast from \$840 million in 2014 to \$1.12 billion (7.7 percent) by 2018, and are very much part of Mexico’s modern culture⁴⁸. This is also the largest games market in Latin America with combined consumer revenues constituting 81 percent of the industry: Consoles earned \$327 million and mobile games \$297 million (2013). Both physical and digital consoles are growing, the former being unusual compared to most other top markets.

Online games are also gaining in popularity to reach \$111 million by 2018 at a solid 9.6 percent growth rate. Mobile games will grow to \$467 million in 2018 (9.4 percent). A significant amount of this increase will be driven by the widespread popularity of casual and social games, which are attractive to a broader range of people than PC and console games. There are good growth prospects for brands seeking to collaborate with game licensing⁴⁹.

Challenges Facing U.S. M&E Exporters

Mexico is a large market and there are opportunities for U.S. exports, especially Latin channels and Spanish language content, but also English content. The government continuously cracks down on physical piracy but has not been very effective in protecting intellectual property in the digital environment. The major obstacles to effective enforcement of IP crimes in the digital environment are (1) a need for an improved legal framework to address IP crimes in the digital environment; (2) a need for more expertise by law enforcement to investigate and prosecute digital crimes; (3) a need for more priority and focus to these types of crimes; and (4) enhanced judiciary expertise to adequately adjudicate these cases.

With regard to the current legal framework, Mexico has not implemented the World Intellectual Property Organization (WIPO) Internet Treaties, and copyright law reform has stalled in the shadows Trans-Pacific

Partnership (TPP) negotiations. Camcording, trafficking in circumvention devices, and other forms of piracy thrive in the Mexican market place because the present laws do not adequately address new digital-based distribution methods such as streaming and the transfer of files via peer-to-peer networks. In addition, industry has highlighted the failure of authorities to properly investigate and prosecute IP crimes.

It is imperative for U.S. exporters to remain vigilant about protecting their intellectual property and work with reputable entities in the Mexican marketplace in order to ensure reliable business transactions. In many developing economies, small M&E businesses work with or contract with the majors, especially with regards to IP and copyright protection matters, as the larger corporations have more resources to deal with local challenges and get support from local government.

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United Kingdom

The British M&E market will expand to \$105 billion by 2018, growing at a steady 3.1 percent CAGR, from \$90.5 billion in 2013. Digital video entertainment is forecast to grow rapidly with the proliferation of viewing devices, and in late 2014, the United Kingdom boasted 48 million smartphone connections, as well as two million smart TVs and 14 million tablets in use. International film productions contributed 81 percent of the film-spend in the United Kingdom, and the UK government offers lucrative tax incentives for domestic feature films, UK TV drama, video games and animation. The UK government is actively pursuing collaboration and investments from China, and the two nations penned a co-pro deal in 2014. The video games sector is growing exponentially, from consoles to mobile to online games, but PC games are in decline. UK officials have stepped up enforcement and cooperation with the private sector in recent years, to combat piracy of creative content.



The United Kingdom ranks first on ITA's list of top M&E export markets. The UK entertainment industry is growing three times faster than the overall economy and as a longstanding U.S. trading partner, garners the top spot for U.S. M&E exporters in 2015. The overall digital M&E market will see steady growth through 2018, but three areas stand out. Over-the-top (OTT) streaming will make a big jump and nearly triple, to reach \$1.7 billion by 2018.

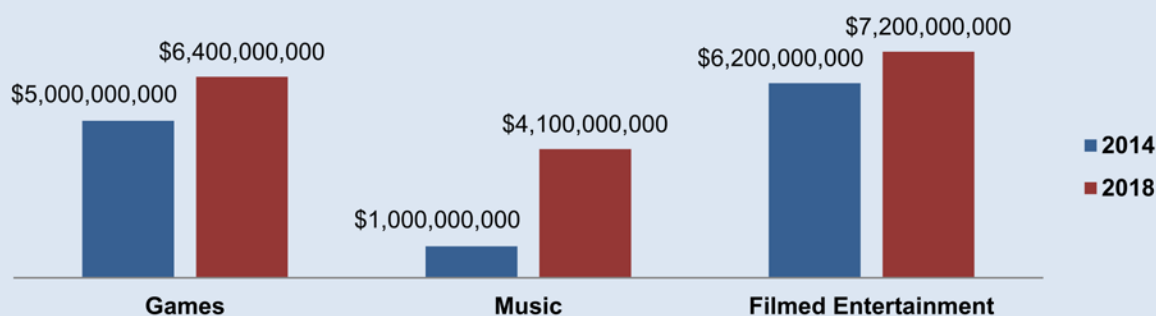
Both countries are fans of each other's TV content and barring any unforeseen regulatory hurdles, licensing, distribution and even production of content for TV and OTT presents strong growth for U.S. exporters and licensors to the UK market. Digital music downloads are

growing despite an otherwise heavily pirated global music market, signaling that consumers are willing to pay for downloads. Music streaming services have caught on in the United Kingdom. The game sector is also thriving, with excellent opportunities in digital console games and very good growth in online games.

Overview of M&E Market

The United Kingdom is a top entertainment market and one of the largest film, TV and music markets in the world, and the British government provides hefty subsidies to these sectors to grow the domestic industry. Three companies dominate the British theatrical industry: Cineworld, Vue, and Odeon account

Figure 11: Media and Entertainment in the United Kingdom (2014-2018)



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

for more than two-thirds of total UK screens, and the six largest theaters account for 85 percent of the business, according to the Cinema Exhibitors Association.

The United Kingdom has digitized most of its theaters; 95.2 percent of the country's 3,858 screens were digital by mid-2013. The Federation Against Copyright Theft, or FACT, has mobilized industry and government to tackle the considerable online piracy of filmed entertainment, but is hampered by the costs involved with computer forensic analysis. The Police Intellectual Property Crime Unit (PIPCU) of the London Police Department has launched high profile campaigns to educate the public, and pursue cases in the digital and physical piracy markets, for all creative content sectors. The UK government is also supporting the Creative Content UK project between rights holders and ISPs to deal with IP infringement of online.

Opportunities for U.S. Companies

Filmed Entertainment

The United Kingdom's filmed entertainment sector was valued at \$6.1 billion in 2013 and is set to grow to \$7.2 billion by 2018 (3.4 percent). According to Oxford Economics, this segment supports over 117,000 jobs (2012) and contributes over \$7 billion to the UK GDP. The United Kingdom held 5 percent of global box office receipts in 2013 at \$1.88 billion, and is expected to reach \$2.16 billion by 2018 (2.8 percent). Box office receipts will reach \$2.16 billion by 2018, growing 2.8 percent.

The six U.S. major motion picture studios dominate film distribution in the United Kingdom, but competition is strong from indie studios, signaling opportunities for smaller U.S. distributors. According to the UK Film Distributor's Association, 120 companies released movies in the United Kingdom in 2013. Notably, the top ten distributors accounted for 96.4 percent of the theatrical box office receipts and released 298 films out of a total of 790.

Electronic home video will continue to grow exponentially from \$825 million in 2013 to \$2.16 billion by 2018 (21.3 percent), with OTT leading the way with expected revenues of \$1.74 billion by 2018. Physical home video is contracting to only 36 percent of total home video revenues, down from 51 percent in 2013, despite an uptick in Blu-Ray and TV box set spending that same year; while electronic will increase its market share from 14 percent to 30 percent of total home

video revenues. Physical home video will nonetheless post larger revenues than total digital revenues, despite a negative -3.8 percent growth rate, to reach \$2.6 billion in 2018, as it still holds a larger share of the market segment.

Cable TV is in strong competition with the streaming sector, with major ad-campaigns launched by industry giants Sky, Netflix and Amazon to engage British consumers with services on PCs, mobile apps, and game consoles, demonstrating opportunities for innovative firms in this space to either partner with larger U.S. or foreign corporations who need English speaking expertise, or to bring value-added services from specialized small businesses to market.

Music

The UK music industry will experience very modest overall growth from 2013-2018, at a 0.1 percent growth rate, to reach \$4.14 billion in revenues (down from \$4.67 billion in 2009). Live music constitutes half of UK's music revenues and is expected to reach \$2.37 billion by 2018, but this is only a 0.2 percent growth over five years.

In September 2014, live music sales rose 20 percent to just over \$1.1 billion. Digital streaming, however, is expected to grow 8.3 percent to \$174 million, and digital music licensing is a close second at 5.2 percent, but with dramatic declines in mobile music by -29.2 percent and physical at -7.5 percent, to \$560 million. This pattern of falling physical sales is a global phenomenon, although UK music revenues are higher than most European countries, with the exception of Germany which is estimated to reach \$4.34 billion by 2018 and 21 percent digital streaming growth over the five-year period measured here.

UK audiences rapidly signed up for subscription-based and ad-driven digital music streaming, and revenues rose 29 percent from 2012-2013 to reach \$117 million. Leading providers include: Spotify, Deezer, Rdio, Xbox Music, and Google Play Music All Access. As a result, digital streaming has now become a highly competitive market. Some analysts question whether UK audiences will stick with the current trend rather than opting to purchase and own music outright as opposed to accessing a catalogue of music online.

Games

The UK video games market will see healthy growth of 5.1 percent between 2013 and 2018, to reach \$6.37 billion. According to Price Waterhouse Coopers, current

projections show a value of \$4.5 billion in 2016, up from \$3.5 billion in 2011. Unlike in many markets, game consoles sales remain robust and half of total video games revenues are from consoles, which should experience a 4.3 percent growth during the five year period to reach \$3.23 billion.

With the proliferation of smart phones and tablets, mobile games have been on a steep incline and should see 6.9 percent growth from \$947 million in 2013 to \$1.32 billion in 2018. Online gaming is also on the rise, and is expected to grow at 5.7 percent from \$843 million to \$1.11 billion over the forecast period. Digital console games will also experience robust growth from \$912 in 2014 to \$1.4 billion by 2018, promising excellent export or licensing deals to U.S. game developers. Like most of the rest of the world, PC games will decline to \$327 million in 2018, at a rate of -1.4 percent over the five-year period.

Challenges Facing U.S. M&E Exporters

The biggest challenge for U.S. M&E exporters to the United Kingdom is the cost of doing business and competition from other trading partners in the marketplace, including (UK government subsidized) co-production and similar deals that bring foreign competitors in to the market and could stifle U.S. competition. Historically, the two countries conduct a lot of trade with one another, especially in the entertainment industries. The industry is very large, but growing at a relatively slower rate than many of the emerging economies.

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Sector Snapshots

This section contains sector snapshots that summarize opportunities in each media and entertainment subsector. Each snapshot offers commentary on the relative competitive position of U.S. suppliers.

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Filmed Entertainment

Hollywood represents the global epicenter of the filmed entertainment industry, and the U.S. marketplace is the most valuable for production and consumption. If you can make it in Hollywood you can make it anywhere, as the famous saying goes. Filmed entertainment revenues will grow at a healthy 4.7 percent from 2013 to 2018, to reach \$39.2 billion in the United States.

Today's filmed entertainment industry has been affected by various market forces, including the recent economic downturn, the digital revolution and the high cost to transition to digital, piracy and cam cording in theaters, new revenue streams that compete with traditional entertainment models, and consumer-created content online. The movie industry has additionally been subject to reduced financing options and stricter scrutiny by investors in film projects, window compressions necessary to comply with new digital formats that reduce the size of a movie file and therefore how it will be viewed on big screens, which compromises the creative integrity of films, and the industry is affected by reduced film slates, i.e. the number of films slated for production annually (original and sequels), and, competition from global producers.

Yet, the film industry is still dominated by the six U.S. motion picture studios, which form the base of the MPAA's membership⁵⁰, and a handful of so-called large independent studios such as Lionsgate Films or the Weinstein Company, which produce blockbusters that dominate worldwide charts. Indie studios are exponentially more challenged than the majors by lending limitations, piracy and fewer resources to compete globally, and depend on reliable licensing deals and pre-sales to compete. The majors mostly rely on Indies to produce films, tapping in to niche expertise and the nimble business environment in smaller firms that can react swiftly to market conditions as they are less affected by a large corporate structure.

Hollywood has perfected the trifecta of franchises, sequels and remakes to yield consistent box office returns. Box office revenues will reach \$12.53 billion, growing 3.1 percent by 2018. Movie theater admissions are increasing very slowly, due to competition from multiple viewing and consumption devices and formats in the digital and online arena. The MPAA estimates the film industry supports nearly two million jobs and \$104 billion in wages across subsidiary industries. The United States boasts a whopping \$14 billion filmed entertainment trade surplus (according to the most recently available data from 2012).

U.S. films are viewed in 140 countries, but market barrier restrictions are plentiful, ranging from cultural content and censorship restrictions, import quotas, taxation, unfair customs valuation practices, and protectionist measures designed to grow domestic industries and keep foreign businesses at bay, and persistent and rampant piracy worldwide.

Global Export Market Opportunities

There film industry offers a handful of top trade shows for business and trade, including the Cannes Film Festival, the American Film Market, Hong Kong Filmart, and MIP COM, and a slew of major or smaller film festivals around the globe such as the Toronto and Sundance Film Festivals. Small businesses typically have to decide how to budget for the year and sometimes can choose only one or two shows to attend. In addition to meeting buyers and distributors at trade shows, independents can attend festivals and utilize social media and traditional marketing tools to gain attention for their content.

Besides the six top markets, there are pockets of opportunities depending on the types of content being sold and the experience of the exporter with foreign

Figure 12: Top Markets Filmed Entertainment Exports & Licensing*

2014 - 2018	Rank	Country
Strong Prospects	1	United Kingdom
	2	China
Less Certain Export Growth	3	Canada
	4	Brazil
Significant Obstacles	5	India
	6	Mexico

* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

trade. For example, both Indies and majors can take advantage of co-pro arrangements with a host of European and Latin American nations, Canada, China, South Africa, and many other countries that offer formal agreements or tax incentives for the filmed entertainment industry. TV content is in demand across

a variety of European markets, and is often required to be translated or dubbed to local languages. The MPAA and Independent Film and Television Alliance (IFTA), as well as state government film commissions, offer resources about domestic and overseas filming opportunities.

Music

The U.S. music market is expected to total \$16.5 billion by 2018 at a 1.9 percent growth rate from 2013. The digital recorded music segment was \$3.8 billion in 2013, and digital music download revenues will grow slowly at a 0.1 percent leading up to 2018. The action is in ad-supported and paid-subscription streaming services which rose 48.5 percent in 2013. Digital music streaming will grow to \$1.7 billion during the forecast period at a 14.5 percent growth rate, representing 37 percent of digital recorded music.

“The International Federation of Phonographic Industries (IFPI) estimates, based on comScore/Nielsen data, that 26 per cent of internet users worldwide regularly access unlicensed services. This estimate applies only to desktop-based devices: it does not include the emerging and as yet unquantified threat of smartphone and tablet-based mobile piracy as consumers migrate to those devices. Digital piracy is the biggest single threat to the development of the licensed music sector and to investment in artists. It undermines the licensed music business across many forms and channels – unlicensed streaming websites, peer-to-peer (P2P) file-sharing networks, cyberlockers and aggregators, unlicensed streaming and stream ripping and mobile applications.”⁵¹

Global Export Market Opportunities

It is generally accepted that the largest music trade show in the world is MIDEM, held annually in June in Cannes, France; a major international B2B show with music, tech, and brands converging to enter into licensing agreements and do business. One of the largest music industry events in the United States is a set of film, interactive, and music festivals and conferences that started out as a music only activity, but now encompasses film, tech, and music, and draws a global audience. South by Southwest (SXSW) is based in Austin, Texas and is held over a week and a half annually in April. Throughout the year there are a myriad of festivals and trade shows in the United States and globally, many of which focus on a particular market, region, or genre of music. Many of the trade associations for this industry hold semiannual conferences.

The music business depends on copyright protections and certainty in legal markets. It is critical to understand that the industry is governed by two copyrights: a musical composition copyright and a sound recording copyright. This means, the notes and lyrics have one, *i.e.*, the musical composition, and the recorded version has one, *i.e.*, the sound recording.

This is important as determining who the copyright holders are determines who gets royalties and earns income from performances of musical recordings. This in turn complicates the income generation for musicians, labels, and music publishers. This report does not offer extensive analysis of music publishing and licensing, but it is critical to underscore the importance of understanding rights management as copyright laws and regulatory environments differ worldwide for the music industry, as does the ability of performance rights organizations (also known as collecting societies) to identify, collect, and distribute royalties to their constituents.

After years of declining or slow growth, the industry is beginning to see segmented growth patterns. Several European and Latin American markets experienced growth in the music sectors in 2013, particularly due to increases in the global uptake of streaming, subscription, and ad-supported services. Yet, sales generated by the global recorded music industry in 2013 fell by 3.9 percent to \$15 billion, down from \$15.6 billion in 2012, according to the "2014 Digital Music

Figure 13: Top Markets: Music Exports and Licensing*

2014 - 2018	Rank	Country
Strong Prospects Less Certain Export Growth	1	United Kingdom
	2	China
Less Certain Export Growth	3	Canada
	4	Brazil
Significant Obstacles	5	India
	6	Mexico

* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

Report” published by the International Federation of the Phonographic Industry (IFPI). Japan experienced a dramatic 16.7 percent decrease in music sales, principally due to a lack of demand for physical music or ringtones and competition from digital services; this impacted the overall global sales⁵².

According to IFPI, digital music, which is 39 percent of all music sales, reached \$5.9 billion in 2013, a steady 4.3 percent growth rate, riding the wave of significant growth in revenues and users of subscriptions services, ad-supported services, and downloads. Digital channels cover most of the revenues in three of the world's top 10 markets, a remarkable shift for the music industry from the physical market. Subscription services (such as Deezer and Spotify), grew 51.3 percent, and subscription and advertising-supported streams (such as YouTube and Vevo) grew to represent 27 percent of digital revenues in 2013.

As physical music continues to decline, PwC predicts digital will surpass physical recorded music worldwide in 2014 with a slim margin, at \$10.17 billion and \$10.19 billion respectively. Digital has already surpassed physical in the U.S. and other markets, and this is the first time the entire global music market surpasses physical. The revenues will have grown 7.9 percent for digital and declined -9.9 for physical from 2013. By 2015 and leading up to 2018 the difference will be much more dramatic, leading digital to report \$12.5 billion in revenues at a 5.8 percent growth rate, with physical music revenues to reach \$7.4 billion with a -8 percent decline over the study period of this report.

Despite falling by 2.1 percent in 2013, digital downloads represent a lucrative revenue stream, at 67 percent of digital revenues. They are driving growth in Hong Kong and emerging economies such as the Philippines, Slovakia and South Africa.

While physical music sales are generally declining, it still constitutes the bulk of all global music revenues at 51.4 percent (56 percent in 2012). France’s physical market grew by 0.8 percent due to a successful year for local repertoire. Germany, Italy, the United Kingdom and the United States witnessed a slowdown in the decline of physical music sales. Vinyl has made a surprise comeback in recent years, growing at a whopping 101 percent in the United Kingdom and 32 percent in the United States, signaling niche opportunities while it lasts. Performance rights (broadcast, Internet radio services and live music venues) grew 19 percent to reach \$1.1 billion or 7.4 percent of industry revenues in 2013. Synchronization (“synch”) deals (e.g., music in ads, movies and TV) declined by 3.4 percent, but still hold 2.1 percent of total music revenues.

Argentina, Peru, South Africa, and Venezuela all posted top digital licensing revenues ranging from 69-107 percent growth in 2013. IFPI concurs with PwC findings on opportunities in Brazil, China, and Africa as growth markets for the music sector. The top six European music markets: United Kingdom, Germany, France, Italy, Netherlands and Sweden (in order of revenue generation), grew by a modest but resilient 0.6 percent growth, demonstrating reliable markets for U.S. exporters.

Appendix 1: Industry Trade Associations, Industry Resources, and Sector Definitions

Select Industry Trade Associations & Performing Rights Organizations

American Association of Independent Music (A2IM)
American Society of Composers, Authors and Publishers (ASCAP)
Broadcast Music, Inc. (BMI)
Confédération Internationale des Sociétés d'Auteurs et Compositeurs = The International Confederation of Societies of Authors and Composers (CISAC)
International Federation of the Phonographic Industry (IFPI)
Independent Film and Television Alliance (IFTA)
International Intellectual Property Alliance (IIPA)
Motion Picture Association of America (MPAA)
National Association of Broadcasters (NAB)
National Association of Television Program Executives (NATPE)
National Music Publishers' Association (NMPA)
Recording Industry Association of America (RIAA)
Society of European Stage Authors and Composers (SESAC)
SoundExchange

Select Industry Resources

Billboard Magazine
Hollywood Reporter
IFPI's annual Recording Industry in Numbers & Digital Music Report
Nielsen
PwC Entertainment & Media Outlook
Standard & Poor's Industry Surveys
Variety

Sector Definitions

The research in this paper has relied on research from PwCs Entertainment & Media Outlook 2015. PwC defines the industry sectors as follows:

Filmed Entertainment

Filmed entertainment comprises cinema box office revenues, home video revenues; both digital and non-digital, and includes both consumer and advertising spending.

Home video includes both electronic and physical home video of films, TV programming and other premium video content. Physical home video is split between rentals and sell-through and covers consumer spend on movies, TV programming and other premium filmed entertainment content, on DVD or Blu-ray.

Rental revenue comprises spending on rentals of videos at video stores and other retail outlets along with DVD or Blu-ray discs distributed by mail services.

Electronic home video considers revenue from on-demand video services that offer premium filmed entertainment content (including movies, TV programming or other premium video content) either via a TV subscription provider, or an over-the-top (OTT)/streaming service (such as Netflix).

Electronic home video through-TV-subscriptions comprises revenue from both video on demand (VOD) and pay per view (PPV) services provided by a TV provider as part of a TV subscription package, or as an enhancement to that core package. This category excludes revenue from stand-alone operator OTT services that do not require a subscription, such as MTG's Viaplay or Sky's Now, but includes incremental revenue from "TV Everywhere" packages (such as Sky's Go) that bundle OTT with conventional pay-TV services.

Electronic home video through OTT/streaming services comprises revenue from standalone services (such as Netflix) whose filmed entertainment content is accessed via a broadband or wireless Internet connection and is viewable on a PC, TV, tablet, smartphone, or other device which bypasses TV subscription providers. These services are split between transactional video on demand (TVOD) and subscription video on demand (SVOD). Note that this category also includes revenue from stand-alone operator OTT services, such as MTG's Viaplay or Sky's Now, that do not require a subscription to a core TV service, but excludes revenue from operator "TV Everywhere" packages that bundle OTT with conventional pay-TV services.

TVOD services (such as iTunes) deliver filmed entertainment content via the open Internet and do not require a subscription. SVOD services (such as Netflix) are also delivered over the open Internet, but require a subscription.

Cinema revenue comprises consumer spend at the box office for theatrical motion pictures and advertising spend at the cinema including on-screen adverts prior to the movie. It does not include revenue from merchandise or concessions. This revenue is non-digital, and from both consumer and advertising spending.

Games

This segment comprises consumer video games software and services (not hardware or devices) across all platforms, including console, PC, online and mobile, as well as advertising via video games.

Console games consider all revenue associated with playing games of any type on a games console (both in-home and handheld) including physical (disc-based) game sales at retail, digital game sales, additional downloadable content (DLC) and subscription services.

PC games comprises physical (disc-based) and digital sales revenues from retail stores and digital download stores (such as Steam and Origin) and additional downloadable content.

Online games include those games played on a PC which require an Internet connection to play and include subscription MMOs, free to play MMOs, casual games and social games.

Mobile games comprise all revenues associated with playing games on a mobile device (tablet or mobile phone) including digital games and app sales, subscription services and associated virtual items.

Video games advertising comprises revenues from advertising built into games on any platform and access type including in-game advertising. It does not include advertising delivered dynamically via the Internet. This revenue is non-digital and from advertising spending.

Music is comprised of consumer spend on music, including both physical and digital recorded music and live music played at concerts, as well as revenue from sponsorship of live music, but does not include revenue from merchandise or concessions at live music events. This segment includes both digital and non-digital revenue, and revenue from both consumer and advertising spending.

The recorded music component comprises physical and digital. All consumer spend is measured at retail level which can be substantially higher than the wholesale or trade value revenues sometimes reported. This segment includes both digital and non-digital revenue, and is revenue from consumer spending.

Physical recorded music covers any retail or online purchase of official physical albums (*i.e.*, CDs), single sound recordings or music videos. Digital recorded music considers the sale of any licensed music distributed digitally to connected devices (including PCs, tablets, smartphones, and dedicated music players), and is split between streaming and downloads.

Streaming comprises revenue from subscription and advertiser-supported streaming services (such as Spotify). Note that service providers do not break this revenue out into consumer and advertising components.

Downloads include revenues from any licensed recorded music downloaded via app stores or licensed services (such as iTunes).

Mobile music here refers to the purchase of ringtone and ring-back tones only. Revenues from music services that are delivered wirelessly to connected devices (such as Spotify) are included under digital.

For live music, consumer spend on tickets is included along with sponsorship revenues. This segment is non-digital and represents revenue from consumer and advertising spending.

The total number of music units sold at retail level, both physical and digital, includes both single tracks (as either physical or digital singles) and albums (either digital or physical).

The number of individual music tracks sold digitally includes digital singles, albums and paid-for music videos.

The number of physical music units sold includes albums on CD, single sound recordings and paid-for music videos.

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Appendix 2: Top Markets Media and Entertainment Exports 2006-2013

U.S. Exports of Audio-visual and related services and products by type of intellectual property, including: Movies and television programming, books and sound recordings, broadcasting and recording of live events, and 'other.'
Source: Department of Commerce, Bureau of Economic Analysis.

Table 2.2. U.S. Trade in Services, by Type of Service and by Country or Affiliation									
[Millions of dollars]									
Bureau of Economic Analysis									
Release Date: October 24, 2014									
Line		Exports							
		Charges for the use of intellectual property n.i.e. by type of intellectual property							
		Audio-visual and related products							
		Total							
		2006	2007	2008	2009	2010	2011	2012	2013
1	All countries	14720	16498	15288	15746	15886	17865	18884	18398
2	Canada	1286	1503	1526	1606	1573 (D)		1930	1988
3	Europe	9851	10629	10023	9787	9633	10499	11075	10583
14	United Kingdom	4001	4162	3208	2908 (D)		3070	4259	3914
16	Latin America and Oth	863	1174	1160	1303 (D)	(D)		1877	2250
17	South and Central Ame	842	1133	1128	1259	1378 (D)		1828	2204
19	Brazil	309	437	383	398	441	612	584	754
21	Mexico	(D)	374	365	390	372 (D)		487	517
34	Asia and Pacific	2453	2785	2314	2750	2960	3386	3631	3185
36	China	43	124	59	59	110 (D)		186	313
38	India	47	60	61	70	82	83	111	103
Legend / Footnotes:									
<i>D Suppressed to avoid disclosure of individual companies.</i>									

The Top M&E Markets Export chart above shows U.S. exports of audiovisual (AV) services and products (i.e. filmed and music entertainment sectors) to the top markets in this report.

- The United Kingdom is the largest AV destination and India the smallest of the six markets.
- Exports to both countries declined during 2012 – 2013, after slow but steady growth from 2006 to 2012. This is attributed to the global recession, weak consumer purchasing power, and increasing online piracy rates.
- Exports to Brazil jumped from \$584 million in 2012 to \$754 million in 2013, despite a tough tariff and taxation environment, and other trade barriers imposed on importers.
- China had an equally impressive bump from \$186 million to \$313 million thanks in part to the country's five year plan to expand its own entertainment sector.
- NAFTA partners Mexico and Canada saw respectable increases in U.S. exports, signaling regional growth markets for U.S. exporters of digital M&E content and products.

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Appendix 3: About the Office of Digital Services Industries & Global Publishing, Media & Entertainment Team*

The Office of Digital Services Industries (ODSI) is headquartered in Washington, DC in the Industry and Analysis (I&A) division of the International Trade Administration (ITA) at the U.S. Department of Commerce. ODSI has two teams: Data Flows and Privacy; and, Digital and Internet Services. The Data Flows and Privacy team works to promote privacy policy frameworks to facilitate the free flow of data across borders to support international trade. The team administers the U.S.-European Union and U.S.-Swiss Safe Harbor Frameworks, and is leading efforts to implement the Asia Pacific Economic Cooperation Cross Border Privacy Rules System. The Digital and Internet Services team focuses on policy and commercial issues related to a wide range of evolving ICT services, including cloud computing, software and applications, advanced communications services, and media and entertainment.

The Global Publishing, Media & Entertainment Team⁵³ is part of a group of industry teams and consists of 162 ITA staff-members based at HQs in Washington DC, at U.S. Export Assistance Centers (“USEACs”) across the United States and working on commercial and export matters at U.S. Embassies and Consulates worldwide. It is a joint team between I&A and Global Markets (GM) divisions within ITA. **Global Markets**⁵⁴ assists and advocates for U.S. businesses in international markets to foster U.S. economic prosperity. Utilizing a network of trade promotion and policy professionals located in over 70 countries and 100 U.S. locations, Global Markets promotes U.S. exports, especially among small and medium-sized enterprises; advances and protects U.S. commercial interests overseas; and attracts inward investment into the United States. **The Global Teams**⁵⁵ aim to: Develop and share industry sector expertise and deliver large scale client outreach at leading trade events; create and share knowledge through collaboration across ITA and the globe and provide industry and subject matter training; distribute industry and market intelligence virtually to clients; and support an internal culture of innovation, integration, and collaboration.

*Andrea DaSilva is the Global Team Leader for the Publishing, Media & Entertainment Team, based in Washington DC where she also serves as a Senior Policy Analyst for Media & Entertainment Industries in the Office of Digital Services Industries, International Trade Administration, at the U.S. Department of Commerce.

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Appendix 4: Citations

- ¹ This figure includes multiple subsectors as defined by PwC: publishing of books and magazines, music and radio, film and television, games, Internet access, B2B and advertising in all sectors, as well as both digital and physical revenues for these sectors.
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- ⁴⁷ <http://www.ifpi.org/downloads/Digital-Music-Report-2014.pdf>
- ⁴⁸ <https://xgamebrainx.wordpress.com/2013/09/18/video-games-around-the-world-mexico/>
- ⁴⁹ <http://www.euromonitor.com/toys-and-games-in-mexico/report>
- ⁵⁰ The six motion picture studio members of MPAA are: Walt Disney Studios Motion Pictures; Paramount Pictures Corporation; Sony Pictures Entertainment Inc.; Twentieth Century Fox Film Corporation; Universal City Studios LLC; and Warner Bros. Entertainment Inc. <http://www.mpa.org/our-story/>
- ⁵¹ Digital Music in Figures. International Federation of Phonographic Industries. <http://www.ifpi.org/facts-and-stats.php>
- ⁵² Digital Music in Figures. International Federation of Phonographic Industries. <http://www.ifpi.org/facts-and-stats.php>
- ⁵³ The Global Publishing, Media & Entertainment Team: <http://itacentral/teams/gt/teams/publishing/Pages/Home.aspx>
- ⁵⁴ Global Markets: <http://www.trade.gov/markets/>
- ⁵⁵ Global Teams: <http://itacentral/teams/gt/Pages/Home.aspx>

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